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# AIM JOURNAL

THE ONLINE MONTHLY FOR THE ALTERNATIVE INVESTMENT MARKET

## Another good year for AIM

AIM performed strongly in 2016. The 14% gain for FTSE AIM All Share over the year was similar to the rise in the FTSE 100 index, while the FTSE AIM 100 index outperformed the other main measures with a 15.6% gain. The FTSE AIM 50 index, which outperformed in 2015, was still 14.1% higher.

This is the second year running that AIM has risen, which is in contrast to the FTSE 100 index, which fell in 2015. The larger AIM companies are doing well, with strong performances from the likes of boohoo.com (see page 6). Money raised was lower than in 2015 despite the good performance of the market as a whole.

AIM cancellations were higher than the number of new entrants for the third year in a row, although the performance of the new entrants was impressive (see page 10). The number of AIM companies fell to 982 and this figure will fall further because new companies are rare in the first couple of months of the year.

Predictably some companies used the holiday period to issue negative announcements, including the departures of the chief executives of Fairpoint and 1Spatial. However, none of them had the cheek of TLA Worldwide, which issued its profit warning just before 6.30pm on the last day of trading prior to Christmas.

## Gama expands US operation

AIM-quoted Gama Aviation and fully listed BBA Aviation have merged their US-based aircraft management and charter businesses to create Gama Aviation Signature Aircraft Management. The joint venture will have more than 200 aircraft under management, which makes it the largest in the US aircraft management sector and one of the largest in the world.

BBA had acquired its aircraft management business as part of the takeover of Landmark Aviation last February and it was required to find a majority partner due to US Department of Transport foreign ownership and control restrictions. Gama owned 49%

of its business because of the same regulations. Gama and BBA will each own 24.5% of the new joint venture and the other 51% will be held by management and other US investors. There will be branding fees payable to Gama and BBA.

The BBA west coast-based business generated pre-tax profit of \$5.5m in 2015 and Gama's east coast-based operations made \$4.3m over the same period. Annual cost savings of at least \$2m should be achieved over the next two years - during which time the deal should be earnings neutral for Gama. In the longer term, earnings should be enhanced, helped by cross-selling of maintenance services.

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## general news

# EVR secures Warner deal

Virtual reality content developer EVR has signed a content and distribution agreement with Warner Music. This deal indicates that EVR could become a significant player in the creation of virtual reality content.

Virtual reality technology is available but it needs content to really take off. EVR can provide that content and the deal with Warner highlights that EVR management has excellent contacts. EVR already has agreements with more than 50 concert promoters, venues and events. The Warner agreement enables EVR to film artists on Warner labels. This content can be broadcast live or recorded. There is an initial exclusive period and then there is joint exploitation of the content.

Warner has an entitlement to subscribe for 43.24 million shares

at 4.25p each over a five-year period. It does not have to buy these shares but the share price has subsequently risen above 8p. MelodyVR was valued at around £5m when it reversed into AIM shell Armstrong Ventures in order to create EVR last May and in the autumn £3.4m was raised at 1.7p a share.

EVR has developed a virtual reality music platform and related technology, including its own camera and encoding technology that makes it easier to edit the footage. The storefront for the content has also been developed internally. The staged beta launch of this service before Christmas provides the opportunity for a closed group of users of Samsung Gear VR devices to access music content so that EVR can collect data and insights. A wider launch is planned later this year.

# MP Evans bid lapse

Kuala Lumpur Kepong has allowed its 740p a share bid for MP Evans to lapse following acceptances equivalent to 13.2% of the oil palm plantations operator. The share price has fallen but it is still above the pre-bid level. MP Evans has sold its Malaysian joint venture PT Agro Muko, raising \$100m. The deal valued the plantations at \$13,000/hectare and MP Evans argues that this underpins the independent valuation of the group of £10.82 a share. MP Evans intends to pay a special dividend of 10p a share, although the payment date has yet to be confirmed. The dividend will cost £5.6m. There will still be plenty of cash left to invest in additional directly-managed, majority-controlled plantation assets.

# AIM's US government connection

A former AIM company director is set to be appointed as Secretary of Commerce in the US following his nomination by US President-elect Donald Trump.

Former investment banker Wilbur L Ross Jr has a reputation for restructuring failing companies and Forbes estimates that he is worth around \$2.5bn. When Ross worked at Rothschild in the 1980s he helped Trump restructure his Atlantic City casinos business.

Ross is not always successful. Between 2006 and 2008 he was a director of AIM-quoted engineer Wagon – where his WLR Funds owned 86.4% – which went into

administration in 2008. He was also a director of cash shell NBNK Investments, joining the board at the beginning of 2013 after the original planned bank acquisition fell through.

Ross had previously invested in Virgin Money, which floated on the Main Market. He failed to come up with a financial sector acquisition for NBNK, which left AIM in June 2016. It is being wound up. Ross stepped down as chairman of NBNK at the end of 2014 after he was appointed to the board of Bank of Cyprus, although his funds continued to be major shareholders.

Ross has not always been positive about AIM. In 2007, asked by the Financial Times about whether AIM was a dangerous market, Ross said "it clearly is a dangerous one". It may be no coincidence that at that time he was a member of the Committee on Capital Markets Regulation, an organisation that published a report called The Competitive Position of the US Public Equity Market in the same year. The report analysed the eroding of the competitiveness of US stock markets and possible measures that could be taken to change that.


**advisers**

## Second-half recovery at WH Ireland

AIM adviser WH Ireland says that it had a tough time in the year to November 2016. However, the corporate broking division had a much stronger second half.

The first half was hampered by a period when the broker was not allowed to take on new corporate clients and there was a sharp dip in transaction revenues in that period. There was an upturn in the second half and the outlook is positive. The wealth management division has increased its assets under management to £3bn. A new private-client platform should be launched by the summer.

Early in December, WH Ireland raised £1.58m at 123p a share. The shares were taken up by existing large shareholders. Oceanwood Capital Management took its stake

to 15.8%, Polygon Global Partners raised its shareholding to more than 23% and KEH Group increased its to 23.8%. KEH, which bought its initial stake in September, has a relationship agreement with WH Ireland and its chief executive, Humphrey Percy, has joined the WH Ireland board.

The sale of the freehold property in Manchester is taking longer than expected but there should be further news on this disposal in the next couple of months. The full-year figures are expected to be released on 27 February.

■ The latest book from small company fund manager Gervais Williams argues that globalisation “has been heading into headwinds for a while” and he believes that it

is already past its peak.

In **The Retreat of Globalisation**, Williams says that “investment strategies will change more in the coming three years than they have over three decades”. This is likely to mean a decline in demand for index funds and a greater focus on individual companies. Williams sets out ways of reducing risk when choosing individual shares. This includes being more open minded and looking at the total range of companies, particularly at the smaller end due to the likely greater difficulty in obtaining the type of returns on larger companies that have been achieved in the past few decades. Good management teams running efficient businesses are also important.

### ADVISER CHANGES - DECEMBER 2016

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
<b>Quantum Pharma</b>	N+1 Singer	Zeus / N+1 Singer	N+1 Singer	Zeus	01/12/16
<b>Earthport</b>	N+1 Singer / Shore	Panmure Gordon / N+1 Singer	N+1 Singer	Panmure Gordon	05/12/16
<b>Good Energy</b>	Investec / Arden	Arden	Arden	Arden	08/12/16
<b>Andes Energia</b>	Panmure Gordon / Stockdale	Stockdale	Stockdale	Stockdale	09/12/16
<b>Arbuthnot Banking Group</b>	Stifel Nicolaus / Numis	Numis	Stifel Nicolaus	Canaccord Genuity	09/12/16
<b>Tau Capital</b>	Allenby / Peterhouse	Numis	Allenby	Numis	14/12/16
<b>TomCo Energy</b>	SVS	Strand Hanson	Strand Hanson	Strand Hanson	15/12/16
<b>Bushveld Minerals Ltd</b>	SP Angel / Beaufort	Beaufort	Strand Hanson	Strand Hanson	16/12/16
<b>ThinkSmart Ltd</b>	Peel Hunt / Canaccord Genuity	Canaccord Genuity	Canaccord Genuity	Canaccord Genuity	16/12/16
<b>Cluff Natural Resources</b>	Allenby	Allenby / Panmure Gordon	Allenby	Panmure Gordon	19/12/16
<b>WANdisco</b>	Stifel Nicolaus / UBS	Investec / UBS	Stifel Nicolaus	Investec	19/12/16
<b>SRT Marine Systems</b>	finnCap	WH Ireland	finnCap	WH Ireland	20/12/16
<b>Hunters Property</b>	Dowgate	Numis	Spark	Numis	21/12/16
<b>Satellite Solutions</b>	Numis	Arden	Numis	Arden	21/12/16
<b>Epwin Group</b>	Panmure Gordon / Zeus	Zeus	Zeus	Zeus	23/12/16

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**company news**

## IDOX diversifies into the health software systems market

Public sector software

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

**IDOX** is diversifying into the health sector via the £18.5m cash and shares acquisition of Malta Stock Exchange-listed 6PM Holdings. This adds hospital management, clinical and mobile health systems to the group's product range. At the same time the public sector and engineering software supplier raised £20.5m at 60p a share.

The vast majority of sales are in the UK and attempts to improve efficiency in the NHS are likely to drive demand for the software and systems. The iFIT system enables tracking of records using RFID and barcodes. The Emcare product supports independent living by the elderly through real-time health monitoring. The acquisition will provide cross-selling opportunities and enhance the existing digital operations. The business has been consistently profitable – EBITDA is

### The acquisition will be earnings enhancing

estimated at £2.9m in 2016.

The acquisition fills a gap in the coverage of the public-sector markets on which IDOX is focusing. The only one where there is no exposure is criminal justice.

Full-year figures from IDOX show 23% growth in revenues to £76.7m, 43% of which is recurring, while underlying pre-tax profit improved from £14.5m to £16.7m – after an increase in capitalised development spending from £1.2m to £2.8m. Organic growth was 5%. A lower tax charge meant that earnings per share were a quarter higher at 4.11p. The total dividend is 1p a share.

Local authorities still account for

<b>IDOX (IDOX)</b>	<b>64.75p</b>
12 MONTH CHANGE % +25.1	MARKET CAP £m 237.4

the majority of revenues but the rest of the group is growing faster. There was a recovery in the engineering division but there was a decline in contribution from the compliance division, although there was an improved second half. The digital services division grew on the back of acquisitions.

House broker N+1 Singer forecasts a rise in full-year profit from £16.7m to £19.5m, after capitalised development spending of £3.2m and without any contribution from the acquisition. In reality, the acquisition will be earnings enhancing. The shares are trading on 14 times prospective 2016-17 earnings.

## Victoria strengthens Australia market position

Carpets manufacturer

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

Carpets manufacturer **Victoria** is expanding its Australian presence through the A\$34m (£20m) purchase of underlay manufacturer Dunlop Flooring. This cash purchase will immediately enhance earnings and 30% of pro forma group earnings will come from Australia.

Dunlop is the number one in the underlay market in Australia and it takes Victoria into the hard-wood flooring market. The acquisition generated A\$50.8m (£30m) in revenues and an operating profit of A\$4.9m (£2.9m) in its most recent

<b>VICTORIA (VCP)</b>	<b>355p</b>
12 MONTH CHANGE % +52.4	MARKET CAP £m 323.4

financial year. Victoria is expected to have net debt of £74.6m at the end of March 2017, with nearly two-thirds of payments on acquisitions during the year covered by the cash generated by the group.

Australia is already a strong market for Victoria, with like-for-like growth of more than 9% in the past six months. Victoria hopes that it can repeat the success it had with the

acquisition of UK-based underlay manufacturer Interfloor in 2015.

Victoria is expected to make a pre-tax profit of £28.1m in the year to March 2017 and a full contribution from Dunlop Flooring will help 2017-18 profit to rise to £32.9m, up from the previous forecast of £31.3m, which would put the shares on 13 times prospective earnings in 2017-18. Victoria has built strong positions in the UK and Australian floorcoverings markets and it has been seeking a significant acquisition in continental Europe.



## company news

# Seeing Machines decides to go it alone in the automotive market

*Driver monitoring technology*

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

**Seeing Machines** has changed its strategy and decided to go it alone in the automotive market. There were plans to spin off the automotive-focused operations into a new company with outside investors but instead the operator monitoring and sensing technologies developer is raising £15m at 4p a share and offering shareholders the chance to invest up to £2m at the same share price. Seeing Machines has also secured a partner in the fleet sector.

VS Industry has subscribed £1.8m and Seeing Machines chief executive Ken Kroeger is also buying more shares. The cash raised will provide working capital for the group as well as funding the Fovio automotive division. External funding would have meant that the group would have given up control and too much

## Fovio has a total addressable market of \$4bn

of its IP. The fundraising shows that Seeing Machines can raise the necessary cash to go it alone.

Fovio has a total addressable market of \$4bn based on annual global production of 100 million cars and there are already tier 1 suppliers paying to trial the technology.

Seeing Machines has secured a major brand name in most of its areas, including Caterpillar in off-road vehicles, Boeing in aviation and Progress Rail in rail, and the latest deal is the fleet sector. Seeing Machines has secured a strategic global distribution agreement with

SEEING MACHINES (SEE)	4.25p
12 MONTH CHANGE %	-15
MARKET CAP £M	45.7

fleet management technology company MiX Telematics. A co-branded fatigue and distraction product will integrate the technology of the two companies.

House broker finnCap expects continued losses in the next two years but in 2018-19 revenues of A\$140.9m and a pre-tax profit of A\$21m are forecast. Assuming a nominal tax charge, that would value the shares at five times prospective earnings. Net cash is forecast to decline to A\$1.8m by the end of June 2018 prior to the business becoming cash generative in the following year. Fovio could be profitable in 2019-10.

# FreeAgent targets micro clients

*Accounting software*

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

**FreeAgent** has built up a significant client base, with a low churn rate, for its accounting software and the £8m raised in its recent flotation should help it to accelerate its growth. The focus is the self-employed and micro businesses with fewer than 10 employees and there are more than 52,000 clients. Rival accountancy software is not specifically designed for this market.

Recurring revenues are currently running at an annualised rate of £7.7m and the potential addressable market is estimated to be £500m

FREEAGENT (FREE)	102p
12 MONTH CHANGE %	N/A
MARKET CAP £M	41.4

a year. HMRC is bringing the tax process online so this will make the software increasingly attractive as an alternative to paper-based accounting records. FreeAgent gets clients either directly or via accountancy practices. A new agreement with a UK bank will provide another way to boost client numbers. New clients have covered their acquisition costs by early in the second year of subscription.

Investment in sales and marketing and other customer acquisition costs have increased operating costs, so despite revenue growth of 36% to £3.61m the loss trebled from £433,000 to £1.31m. However, there are share-based payments charges and a forex charge relating to a loan that was paid off after the flotation and stripping these out the underlying loss was £600,000. There was a decline in capitalised development costs from £496,000 to £353,000. Net debt was £1.9m prior to receipt of the flotation proceeds.

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**company news**

# Boohoo.com bucks the retail trend with upbeat trading statement

Online fashion retailer

www.boohooplc.com

In contrast to many other retailers, online fashion retailer **boohoo.com** has surprised the market with a positive trading statement, leading to an upgrade to forecasts. On top of this there is news of two acquisitions.

Pre-Christmas trading was better than expected and boohoo.com has increased its revenue growth guidance for 2016-17 from 30%-35% to 38%-42%. Peel Hunt had already been expecting 37% growth so it was at the top of the forecast range. The broker upgraded its profit forecast for the year to February 2017 from £26.2m to £27.3m.

A 66% stake has been acquired in the company that owns the PrettyLittleThing online retail brand,

## Pre-Christmas trading was better than expected

with management retaining a 34% shareholding. The payment is £3.3m in cash, although it depends on the completion accounts. The acquisition is estimated to be at the equivalent of 0.1 times sales, which are expected to increase by more than 150% this year. PrettyLittleThing will benefit from boohoo.com's infrastructure. This deal adds £1m to the 2017-18 pre-tax profit forecast, thereby raising it to £32.9m. The share price has risen strongly on the back of the deal so boohoo.com is trading on nearly 60

<b>BOOHOO.COM (BOO)</b>	<b>134.75p</b>
12 MONTH CHANGE % +264.2	MARKET CAP £m 1508.1

times prospective 2017-18 earnings.

The group also plans to acquire the intellectual assets of Nasty Gal Inc, which has filed for Chapter 11 bankruptcy, for \$20m – a \$3m deposit has been paid. The deal excludes the vintage clothing and third-party businesses. The purchase includes the brand and the customer databases of the loss-making company. There is still a chance that a higher bidder might come along. The women-focused brand will help accelerate boohoo.com's growth in the US.

# Veltyco transformed with positive surprise

Online gaming marketing

www.veltyco.com

**Veltyco** started life as 24/7 Gaming but the original online gaming business did not succeed. The company has been revived via the acquisition of Shelytco Enterprises, whose business is generating players for online gaming and option trading websites. In contrast to its previous incarnation, Veltyco is already starting to produce positive surprises.

Veltyco says that it will beat the profit expectation of €1.38m for 2016. This helps to make the 2017 profit forecast of €3.17m appear even more attainable.

Veltyco is focused on online businesses offering casino and sports betting, lotteries and options trading services and it receives commissions

<b>VELTYCO (VLTY)</b>	<b>32.5p</b>
12 MONTH CHANGE % -74	MARKET CAP £m 21.9

on revenues generated from introductions. These markets continue to grow. Currently, the most significant marketing deal is with Betsson Group but additional marketing agreements will reduce Veltyco's exposure to this one client.

The strong fourth-quarter trading was partly due to the options marketing business. Veltyco secured a marketing and revenue sharing agreement with the Cyprus-based owner of the ZoomtraderGlobal option trading platform during the autumn. There is

an option to acquire this business but no current intention to do so. DTIG Holdings was issued 10.7 million shares (15.8% of Veltyco) as part of the deal.

Veltyco raised £540,000 at 25p a share, after a 25-for-one share consolidation, when it acquired Shelytco. Following a rise in the share price, Veltyco is trading on around nine times prospective 2017 earnings. There are no dividends forecast in the initiation research by Northland but management has stated that it will pay dividends when it is prudent. The cash generative nature of the business means that it could provide an attractive, growing income stream for investors.



## dividends

# Cohort continues progressive dividend policy

Defence and security technology

www.cohortplc.com

### Dividend

Defence equipment and services supplier Cohort paid its maiden dividend of 0.4p a share a few months after joining AIM in March 2006 at a share price of 123p. The dividend has grown steadily since then even though profit has not risen every year. In the past couple of years, the dividend has increased from 5p a share to 6p a share. The dividend cover in each of these years was just over four times.

The interim dividend was raised by 0.3p a share to 2.2p a share. Earnings are expected to fall this year because the rise in pre-tax profit will be offset by a higher number of shares in issue and tax charge but a total dividend of 7p a share is forecast. That would still be covered 3.4 times by earnings. The dividend cover should rise to four times next year.

### Business

Cohort joined AIM nearly eleven years ago with a strategy to become a consolidator in the defence sector. The original business was Systems Consultants Services, which is currently being merged with other parts of the business following disappointing trading. That integration will cost £2.2m and still leave Cohort with four main divisions.

SEA is an electronic systems and software business focused on defence, transport and offshore energy. MASS provides electronic warfare and cyber security services. MCL sources and integrates communications and surveillance technology and the minority interests are being acquired. The newest division is EID, which manufactures communications systems for defence and security

COHORT (CHRT)	
Price (p)	410
Market cap £m	167.7
Historical yield	1.5%
Prospective yield	1.7%

sectors, and a further 23% is being acquired from the Portuguese government to take the stake to 80%.

It was a mixed first half for Cohort but the second half is expected to be better. Cohort reported a loss but there was a small improvement in underlying pre-tax profit from £3.51m to £3.86m on flat revenues. The mix of revenues has changed, with acquisition contributions offset by a loss from SCS, which will be split between the SEA and MASS divisions. SEA is still the largest contributor to revenues, although not to profit, but there was a decline in the first half. MCL and EID made better than expected contributions.

The order book was worth £129.6m at the end of September 2016 and covers more than one year. Since then, Cohort has won a contract to supply radios to the Portugal military worth up to €7.5m between 2017 and 2023. Full-year profit is expected to improve from £12m to £14.3m but there will be a higher minority interest figure and earnings per share will dip slightly. Net cash will fall to £7m at the end of March 2017 due to acquisition costs, but it should recover to more than £15m one year later if there are no acquisitions.

Next year's pre-tax profit is expected to rise to £16.6m. Cohort is trading on just over 12 times 2017-18 prospective earnings.

## Dividend news

Insolvencies remain at low levels and this continues to hold back the profitability of insolvency services provider **Begbies Traynor**. It would have been worse without cost savings and property services acquisitions. Interim revenues dipped from £25.5m to £24.5m but underlying pre-tax profit was flat at £2.5m because of a higher contribution from the property services division. The interim dividend is unchanged at 0.6p a share. Bank facilities have been extended until August 2021 and this will reduce the interest charge. Net debt was £12.2m at the end of October 2016.

### South African Property Opportunities

is paying a dividend of 7.5p a share out of disposal proceeds. At the end of 2016, the company received the £2.3m final instalment for the sale of African Renaissance. There is also an agreement to sell the remaining assets for £3.46m, which is below book value. This will be received in three instalments. The first has been received and the other two are payable in February and June. Following the final payment the plan is to wind up the company. Movements in the South African rand will change the sterling value of the ultimate payment.

### Investment company Oakley Capital

**Investments Ltd** has announced a maiden dividend of 4.5p a share and plans for a long-term dividend policy. Further dividends will depend on the profitability and underlying performance of the company and its cash requirements. At the moment, Oakley intends to maintain its annual dividend at 4.5p a share but there will be two payments a year of 2.25p a share. Oakley believes that it is generating consistent income from existing investments and this is being supplemented by increased cash generated by disposals – the latest is GoDaddy Inc's plan to buy Oakley investee company Host Europe. The underlying NAV is 226p a share.

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**expert views**

**Expert view: The broker**

# Savannah set for another big year

By Ryan Long

**S**avannah Resources\* has been one of the best performers in the AIM junior mining space over the past twelve months, as is demonstrated by the 250% increase in its share price over that period.

Unlike many companies within its peer group, the company has not relied on heavily discounted placings to advance its projects but secured the backing of Al Marjan, a privately owned Omani investment trust.

Savannah is conservatively run and currently debt free, and is continuing to lower the cost of its overheads, ensuring that funds are spent where

The company is ambitiously targeting mine development to commence mining in late-2017.

## Mozambique

In Mozambique, the company and its joint venture partner, Rio Tinto, recently agreed a new consortium arrangement that effectively allowed Savannah to take over operatorship of the combined projects and commence its work programme.

Shortly after securing its operatorship, Savannah produced an initial indicated and inferred mineral resource estimate

projects, Somero and Erajarvi, covering an area of 159km<sup>2</sup>, in Finland. Historical mapping by the Finnish Government defined the presence of lithium-bearing minerals spodumene, lepidolite and petalite.

Savannah has initiated an exploration programme to follow up on the early indications including data compilation, geological mapping and surface sampling, to generate drill targets for follow-up in 2017.

Savannah is headed by the experienced David Archer, who has over 30 years' industry experience and specific expertise in the development and operation of copper and gold projects. He has held executive and non-executive roles in a number of listed companies and is the senior independent director of Anglo Pacific Group plc. He was formerly the managing director and deputy chairman of Savage Resources Limited and managing director of Hillgrove Resources Limited.

2017 is expected to be another big year for Savannah Resources with a resources upgrade and feasibility study at its Omani copper-gold project, resource update and feasibility study

## Savannah has not relied on heavily discounted placings

they will deliver the greatest returns – in the ground.

The company operates in four commodities in three jurisdictions, copper-gold in Oman, heavy mineral sands (HMS) in Mozambique and lithium in Finland.

### Oman

For much of 2016 the company's focus was on advancing its Omani copper-gold project towards production, while it waited for approval of its Mozambican HMS sands joint venture with mining major Rio Tinto.

In Oman, Savannah has completed two drill programmes, with a third under way, completed a gravity survey and also applied for a mining licence over the Block 5 licence area. Based on the numerous high-grade drill results, Savannah is expecting to see an upgrade to its current JORC-compliant mineral resource estimate of 1.7Mt at 2.2% copper in early-2017, followed closely by a scoping study.

of 3.5 billion tonnes at 3.8% THM from the Jangamo and Dongane deposits, which favourably compares with other large HMS deposits.

However, the project has further upside potential, with the resource estimate yet to be completed at the Ravene and Chilubane deposits. The next important milestone for the project will

## Savannah is conservatively run and currently debt free

be the completion of a scoping study that will focus on a dry mining project, of around a 200Mt, at a low-capex, centred on the higher-grade areas (>5% THM) of the deposits.

The scoping study is expected to take three to four months and will commence shortly.

### Lithium

Savannah also owns 100% of two reservation permits over two lithium

on its HMS project in Mozambique and an initial drill programme expected in Finland.

*\*Northland Capital Partners acts as nominated adviser and/or broker and/or provides commissioned research services to the company*



RYAN LONG is a director of research at Northland Capital Partners




**feature**

# Second-half boost to AIM trading

AIM performed strongly last year and trading levels also picked up in the second half.

Last year's EU referendum appears to have sparked an upturn in trading on the junior market. The average daily trade value and average daily number of bargains were both higher in 2016 than 2015.

Trading in the first half of 2016 was behind the levels in the first half of the previous year but in the second half of 2016 each month's trading was higher than the same month in 2015 – both in terms of number of trades and value. The average daily value of trades for the whole year was £128.4m, against £121.9m in 2015, while the average daily number of bargains was 24,593, compared with 22,809 last year.

These figures tend to get adjusted. The 2015 numbers are slightly higher than the original figures in the December 2015 AIM statistics, but any changes should not be substantial.

One of the biggest changes is the decline in trading in industrials. However, this is mainly attributable to the support-services sector, which included online payments business Paysafe in 2015. In the second half of the year Paysafe was generally the second most traded company every month after ASOS but it moved to the Main Market in early 2016.

The improvement in trading levels is more impressive when the loss of Paysafe, which was generating around 10% of trading on AIM in the later months of 2015, is taken into account. In 2017, the cancellation of the AIM quotation of GW Pharmaceuticals will have less of an effect because it accounted for around 2% of the value of trades in December.

Consumer services became even more dominant last year. ASOS continues to be the most traded share on AIM and rival online fashion retailer boohoo.com recovered from its depressed levels in 2015 on the back of increased investor interest.

Mixer drinks supplier Fevertree Drinks

goes from strength to strength and this is the main reason why the consumer goods sector has gone from 2.9% to 5.7% of bargains and from 4% to 5.3% in terms of value.

The beverages sub-sector has gone from one-third to nearly 50% of the total value of consumer goods trading, while the share of the number of bargains has doubled from 28.6% to 57.3%. In December 2016, Fevertree accounted for more than 90% of bargains in the

traded last year was a larger percentage than the share of the total value of AIM, which has risen since 2015. There is undoubtedly an upturn in interest in mining and exploration companies based on optimism about commodity prices.

It is not just small mining companies that have attracted attention. Sirius Minerals is a large mining company and it has become one of the most traded companies on AIM, helped by

## There is an upturn in interest in mining

beverages sub-sector, which is higher than in December 2015. The number of trades in the other beverages companies slipped slightly.

### Mining

Basic materials, which is predominantly mining, has gone from seventh in terms of bargains to the second most traded sector in 2016. In value terms, the sector has moved from seventh to fifth.

This is consistent with the fact that there are a significant number of small mining companies on AIM. The value

of the securing of the finance it requires to develop its mine. The number of trades more than doubled year on year in December and the value was seven times the level in 2015.

In contrast, the oil and gas sector continues to decline in importance even though the oil price has started to recover.

The decline in the technology sector appears to be in part because of the decline in trading in Watchstone, formerly Quindell, which was exacerbated in value terms by the sharp decline in its market capitalisation.

AIM SECTOR TRADING LEVELS (% OF TOTAL)	BARGAINS		VALUE (£M)	
	2016	2015	2016	2015
Consumer services	33.6	26.7	32.9	27.3
Basic materials	11.9	8.6	8.1	5.6
Oil & gas	11.2	12.9	7.8	7.3
Healthcare	11	8.7	9	8.1
Technology	10.2	12.6	9.3	13.2
Financials	9	9.3	13.6	13.9
Industrials	5.7	14.8	12.4	17.4
Consumer goods	5.7	2.9	5.3	4
Telecoms	1.5	3.1	1.4	2.5
Utilities	0.2	0.4	0.2	0.7

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**feature**

# New admissions outperform AIM

Lower numbers of new issues has meant the standard of the companies coming to AIM has been higher.

There has been a focus on the lower number of new admissions on AIM in the past few years and a consequence of this has been the reduction in the number of companies on the junior market. This is perceived to be a negative by many but in reality it is not. The lower number of admissions has led to a higher quality threshold for flotations.

Although the market has performed strongly in each of the past two years, a limited number of companies have floated on AIM. There were 61 new entrants in 2015 and the number reached 64 in 2016 – still a relatively modest figure. However, the £1.1bn raised by new entrants in 2016 was lower than the £1.24bn raised in 2015. The money raised by existing companies was also lower than the £4.22bn raised in 2015, even though Sirius Minerals, alone, raised £370.2m.

December was not as active a month as had been expected. In fact, it was one of the least active Decembers in the current decade despite the early promise. US-focused oil and gas producer Diversified Gas & Oil, which has debentures quoted on Nex Exchange (ISDX), has delayed its flotation to January. It was set to raise \$60m from an ordinary share issue on AIM, in order to pay off the debentures and fund further acquisitions, but this figure has been reduced to \$40m.

Mongolia-focused property investor and cement manufacturer Asia Pacific Investment Partners also failed to join AIM before the end of December. These two companies would have pushed the amount raised by new admissions nearer to 2015 levels.

The number of UK-based flotations has increased, while international entrants has declined to the lowest level since 2009 when there were six international companies out of 36

new admissions. In 2016, though, international companies made up less than one-seventh of the total. This indicates that there is an increasing focus on UK businesses as Chinese companies in particular have fallen out of favour.

It should be noted, though, that some international companies float via a UK holding company so it is difficult to assess how many international companies have joined.

## Flood

There were 982 companies, including readmissions, which joined AIM in 2005 and 2006. By coincidence that is the same number of AIM companies still on the market at the end of 2016.

While that level of new admissions makes great headlines, it rarely makes for good investments. Water is a good thing but a flood does no one any favours. There were good companies but the long-term perspective has been overshadowed by the flood of companies that have done little or failed. This view still dominates the perception of AIM in many people's minds, particularly rival exchanges that want to undermine AIM.

Even initially, the performance of most of these companies was not good.

## Quality

Contrast that with the performance, at least in the short term, of the new entrants in the past two years. In 2015, the average gain of new entrants from admission was 12.7%, with a roughly even split of companies where the share price rose and those where it fell. The median rise was 4.1%.

In 2016, the vast majority of the new entrants had a higher share price at the end of the year.

AIM broker Stockdale Securities has published figures for the new entrants, excluding readmissions, and the performance was even better than in 2015. Stockdale identified 38 companies and seven of those fell, with the rest making gains.

Italy-based renewable power generator Cogenpower was more than 40% lower due to poor trading and changes in its strategy but most of the others were a few percentage points lower. In 2015, there were companies where the share price had slumped by 50% or more, including online media firm Adgorithms and China-based fish supplier Aquatic Food.

Interestingly, three out of the ten largest companies floating ended the year with a lower share price. It might have been thought that the larger companies should have a stronger base and the downside risk would be lower. Most of the best performers had a market capitalisation of less than £50m.

The best-performing new entrant in 2016 was software robotics company Blue Prism, which was 470% ahead at the end of the year. Stockdale excludes this from its calculation and it still comes up with an average gain of 42%. The other strong performers include Franchise Brands, MaxCyte Inc, the winner of the AIM best technology award, and Hotel Chocolat.

There has certainly not been a drought when it comes to new admissions. In fact, there has been more fertile material.

AIM was 14% higher in 2016 but it was significantly outperformed by the new entrants. It should be noted, though, that the index is weighted by market capitalisation whereas the performance of new entrants does not take size into account. Hopefully, the quality of new companies will remain high even if this limits the number of flotations.



## statistics

# Market Performance, Indices and Statistics

AIM SECTOR INFORMATION		
SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Consumer services	18.1	10.8
Financials	15.7	17.5
Healthcare	15.6	9.2
Industrials	14.4	16.3
Technology	10.3	11.8
Consumer goods	9.3	6.1
Basic materials	8.1	15.2
Oil & gas	6.1	10.4
Telecoms	1.5	1.5
Utilities	0.9	1.2

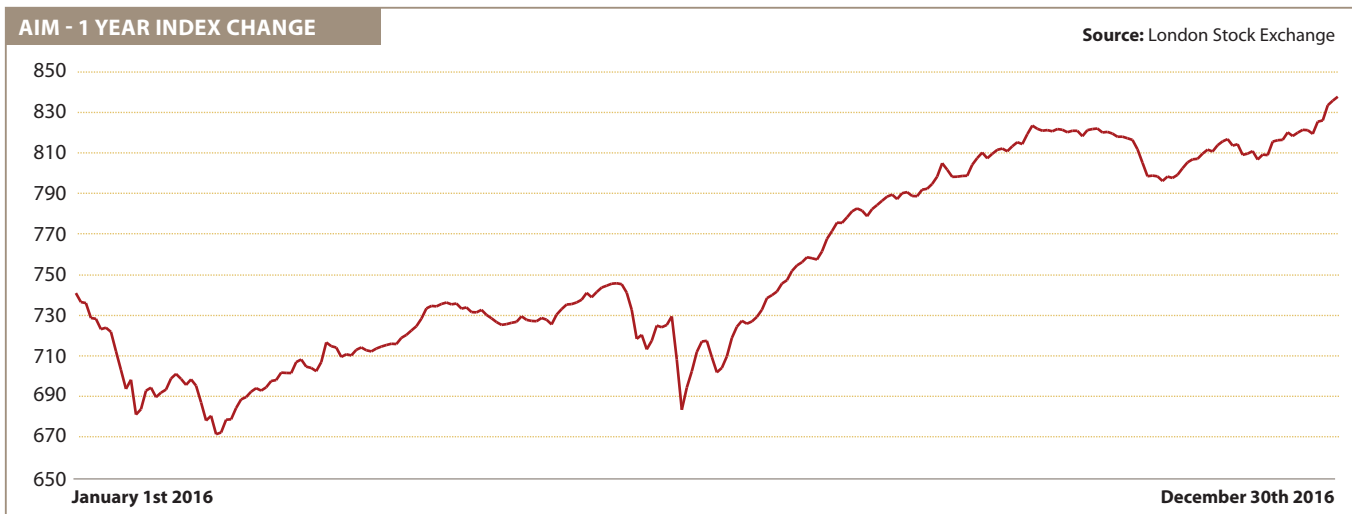
KEY AIM STATISTICS	
Total number of AIM	993
Number of nominated advisers	33
Number of market makers	50
Total market cap for all AIM	£81.2bn
Total of new money raised	£99.5bn
Total raised by new issues	£41.7bn
Total raised by secondary issues	£57.8bn
Share turnover value (2016)	£30bn
Number of bargains (2016)	5.69m
Shares traded (2016)	360bn
Transfers to the official list	182

FTSE INDICES		
INDEX	PRICE	ONE-YEAR CHANGES % CHANGE
FTSE AIM All-Share	844.41	+14.3
FTSE AIM 50	4662.35	+14.1
FTSE AIM 100	4070.96	+15.6
FTSE Fledgling	8904.41	+15.3
FTSE Small Cap	5143.22	+11
FTSE All-Share	3873.22	+12.5
FTSE 100	7142.83	+14.4

COMPANIES BY MARKET CAP	
MARKET CAP	NO.
Under £5m	208
£5m-£10m	101
£10m-£25m	200
£25m-£50m	151
£50m-£100m	142
£100m-£250m	115
£250m+	76

TOP 5 RISERS OVER 30 DAYS			
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Zinc Media	Media	1.58	+102.2
Kodal Minerals	Mining	0.18	+100
Mercom Capital	Financials	29.25	+95
Vast Resources	Mining	0.34	+91.4
Gulfsands Petroleum	Oil and gas	10.5	+90.9

TOP 5 FALLERS OVER 30 DAYS			
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Fairpoint Group	Financials	17	-69.4
Guscio	Media	1.25	-63
United Cacao Ltd	Food	50	-57.5
Proxama	Technology	0.45	-55
Arria NLG	Technology	9	-48.6



Data: Hubinvest Please note - All share prices are the closing prices on the 31st December 2016, and we cannot accept responsibility for their accuracy.

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Based in London, Northland Capital Partners Limited is an independent institutional stockbroker and corporate adviser. Northland enables growth companies to access capital and offers a full nomad service to AIM-quoted small and midcap companies. It has excellent connections with investors, providing them with equity research, advice and trading services. Northland has assembled

a team of highly motivated and experienced professionals that aims to deliver unparalleled service to our clients.

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

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

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