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AIM JOURNAL

Kentz recommends Canadian bid

Former AIM company Kentz Corporation has recommended a 935p a share bid from SNC-Lavalin Group Inc, which values the global engineering services provider at £1.16bn. The bid values the shares at 713% higher than the original 2008 AIM flotation price of 115p a share. This deal shows how AIM can provide the first step in building a business – Kentz was valued at £133.8m at its flotation in February 2008. Kentz grew strongly on AIM and this enabled the company to make the move to the Main Market in 2011. Last year, Kentz saw off bids from other suitors, including Amec, which were at a much lower level.

Kentz is focused on the energy and resources sectors and Canada-based SNC-Lavalin has identified that the resources sector will be a key growth market. The acquisition will particularly strengthen the business's position in the oil and gas market and Kentz chief executive Christian Brown will run this part of the enlarged group.

Not all AIM companies succeed, though. Newspaper publisher Mecom is being acquired for 155p a share by De Persgroep NV. Mecom joined AIM in 2005 via a placing at 50p a share and moved to the Main Market three years later. However, there has been a 100-for-one share consolidation so the bid is the equivalent of 1.55p a share when compared with the original placing price.

ASOS investor buys MandM

Discount online retailer MandM Direct, which had been planning an AIM flotation, is being acquired by Danish fashion retailer Bestseller for up to £140m. Bestseller is the largest investor in online fashion retailer ASOS, AIM's largest company, with a 27.5% stake.

Private equity firm TA Associates acquired MandM in 2007 for £86m and it initially wanted to sell half of its stake. A valuation of up to £170m had been suggested for the proposed AIM flotation. The Bestseller deal is subject to regulatory approvals and should be completed in August.

MandM offers discounts of up to 75% on well-known fashion brands, such as adidas, Converse and Diesel, helping these brands to clear their excess stocks. The largest single brand accounts for 7% of annual revenues of £118.9m. There are websites focused on the UK, Germany, France, Austria, the Netherlands and Poland and sales to 20 other countries.

Online members-only shopping club operator MySale Group did join AIM during June and it went to a discount to its 226p a share placing price. Sports Direct International took the chance to acquire a 4.8% stake in MySale via a contract for difference.

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Chatham Rock dual quote

Chatham Rock Phosphate Ltd is set to be the first New Zealand NZX Alternative Market company to join AIM and it intends to raise NZ$8m (£4.1m). According to Chatham's 2013 annual report: "Although we had long preferred the Toronto market for its breadth of mining and fertiliser stocks, its depressed state convinced us to consider alternatives. We selected London because of its depth of capital with an appetite for risk and comparative buoyancy, and although there are significant costs associated with the listing process we believe it can offer access to capital not available on other markets."

At the current share price of NZ$0.25 a share, Chatham Rock is valued at NZ$40m and there are more than 700 shareholders. The company was formed when the Chatham Rock Phosphate project was reversed into quoted shell Widespread Energy. So far, Chatham Rock has raised and invested NZ$26.5m.

The Chatham Rise is off the east coast of New Zealand between the South Island and the Chatham Islands and within New Zealand territorial waters. There are economically significant deposits of rock phosphate nodules lying on or just below the surface of the seabed. The deposits were explored in the 1970s and 1980s but the rise in the value of rock phosphate and improved extraction technology mean that they are now potentially economic.

A study by RSC Consulting says that there is an inferred resource of 23.4Mt of phosphorite, with potential to increase this figure in the current and additional permit areas. The existing inferred resource is the equivalent of 15 years of mining. The mining permit was received at the end of 2013 and an environmental impact assessment was submitted in May.

Interest concerns

Company Watch says that one in five UK companies are vulnerable to expected increases in UK interest rates. There are around 300,000 companies directly vulnerable because more than 90% of their operating profit is paid out in interest. These companies have a median H-Score of 15 – below 25 is a warning area for companies. The H-Score is a predictive measure providing an evaluation of any company's fundamental financial health. By using the latest accounts the H-Score measures how similar they are to companies that previously failed. A quarter of companies with an H-Score of less than 25 fail. An independent survey of 500 companies by OnePoll on behalf of Company Watch showed more than a quarter of the companies were not ready for higher interest rates. Some of the sectors most at risk are health care services, publishing, catering and retail.

Chinese deregulation provides funding opportunities for Adamas Finance

Cross-border funding reforms in China should be good news according to AIM-quoted Adamas Finance Asia chairman John Croft. The removal of quotas and the requirement for government approvals of cross-border lending should broaden the opportunities for Adamas Finance.

China's State Administration of Foreign Exchange (SAFE) introduced the cross-border lending reforms in June because of concerns that tight credit and a reduced rate of investment would hit China's economic growth. The Chinese government has already cut the reserve requirement ratio for banks. Transaction times are likely to shorten and associated costs should reduce.

Patrick Wong, head of China sales and business development at HSBC, argues that asset managers that do not already have working relationships in China will find it difficult to take advantage. It can take a year to gain a licence. He believes that there will be further reforms in the coming years.

Investment company Adamas Finance, formerly known as China Private Equity Investment Holdings, is advised by Hong Kong-based investment manager Adamas Asset Management, which has nearly five years of experience of investing in small companies in China. Thorough due diligence is important. Adamas AM, which provides senior debt, bridge loans, convertible instruments and other structured private financing, has more than $600m of assets under management.

"We have little doubt the streamlining of rules resulting from the new changes will result in even wider investment opportunities within China", says Croft. He points out that there is huge underlying demand for capital from operationally sound Chinese businesses. Adamas Finance has invested $300,000 in the Adamas AM-managed BRJ China Private Credit Fund Ltd, which follows an initial investment of $500,000 in April.

Adamas Finance is raising $2.2m at seven cents a share and undertaking a ten-for-one share consolidation on 14 July.

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advisers

Lebanese bank buys stake in Peterhouse

Beirut-based bank Levant Investment Bank (LiBank) has acquired a 25% stake in AIM broker Peterhouse Corporate Finance. LiBank says that it had a long-term goal to enter the UK financial services market and it believes that Peterhouse will help with international growth. The UK Financial Conduct Authority and the Central Bank of Lebanon have both given approval to the deal. There is no mention of what Libank has paid for its stake.

Libank was launched in 2012 with initial capital of $30m and offers corporate finance, M&A and fundraising advice, as well as private banking services. Libank has been advising ISDX Growth Market company Ace Liberty & Stone since April 2013. Libank has helped the property company to raise nearly £6m. Libank is offering advisory and broking services to Ace in return for shares. LiBank owns 5.51% of Ace.

AIM adviser WH Ireland is benefiting from increased corporate activity and more activity by private clients. This continues the trends that started during the previous financial year. Interim figures for the six months to May 2014 will be reported on 21 July. In the corresponding period last year WH Ireland reported a profit of £59,000 and the latest outcome will be better than that – excluding reorganisation costs. The comparative interims did include a £154,000 loss on investments following their revaluation. WH Ireland is opening a new office in Milton Keynes and it has hired four investment directors from Canaccord Genuity.

Cenkos Securities says that its trading has been even stronger than originally expected. This means that interim revenues and pre-tax profit will be higher than the £51.4m and £10.7m reported for the whole of 2013, the majority of which was made in the second half. The figures will also be higher than the previous expectations for 2014. The interims will be published in September.

ADVISER CHANGES - JUNE 2014

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
Armor Designs Inc	SP Angel	Daniel Stewart	SP Angel	Daniel Stewart	03/06/2014
Rose Petroleum	Pareto/Allenby	Allenby	Allenby	Allenby	03/06/2014
Doriemus	Cairn	Sanlam	Cairn	Sanlam	04/06/2014
Wolf Minerals Ltd	Numis	Investec	Numis	Investec	04/06/2014
Berkeley Mineral Resources	WH Ireland	Cantor Fitzgerald	WH Ireland	Cantor Fitzgerald	05/06/2014
Max Petroleum	Oriel/Charles Stanley	Oriel/Charles Stanley	Oriel	WH Ireland	06/06/2014
Dekeloil	N+1 Singer	Optiva	N+1 Singer	Beaumont Cornish	09/06/2014
Flowgroup	Investec/Cenkos	Cenkos	Investec	Cenkos	09/06/2014
Praetorian Resources	Pareto	Pareto	Grant Thornton	Westhouse	09/06/2014
Share	Cenkos	Peel Hunt	Cenkos	Peel Hunt	10/06/2014
Concha	Peterhouse	Peterhouse	SPARK	Strand Hanson	11/06/2014
SPDI Secure Property	SP Angel	Liberum	SP Angel	Liberum	12/06/2014
Sirius Real Estate	finnCap/Peel Hunt	Peel Hunt	Peel Hunt	Peel Hunt	16/06/2014
Clontarf Energy	Northland	Shore/Optiva	Northland	Shore	17/06/2014
Essenden	Cenkos	Strand Hanson	Cenkos	Strand Hanson	18/06/2014
LZYE Group	SI Capital	Zeus	SPARK	Zeus	18/06/2014
Conexion Media	Peterhouse	finnCap	finnCap	finnCap	20/06/2014
Mar City	Shore/WH Ireland	Shore/WH Ireland	Shore	WH Ireland	20/06/2014
Pentagon Protection	Peterhouse	Allenby	Cairn	Cantor Fitzgerald	24/06/2014
e-Therapeutics	N+1 Singer	Panmure Gordon	N+1 Singer	Panmure Gordon	27/06/2014
VietNam Holding Ltd	Winterflood	Oriel	Altium	Oriel	27/06/2014
Leyshon Resources Ltd	RFC Ambrian	Cantor Fitzgerald	RFC Ambrian	Cantor Fitzgerald	30/06/2014
Mercer Resources	Peterhouse	Peterhouse	finnCap	Cairn	30/06/2014

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company news

Benefits of HIV monitoring technology delayed for Omega

Diagnostics *www.omegadiagnostics.com*

Diagnostics products developer **Omega Diagnostics** appears to have solved most of the production and consistency problems for the Visitect CD4 HIV monitoring technology but the benefits from the launch of the product are likely to come through too late in the year to have a significant effect. Field trials of CD4 continue and adapting the technology should improve consistency. Once the trials are completed CD4 can obtain its CE mark and this should spark further interest and enable the product to be bought by aid agencies.

Additional long-term growth should come from the allergy division through the launch of the IDS-iSYS automated platform.

> Once the trials are completed CD4 can obtain its CE mark

Omega needs to have a menu of 40 allergens to launch the platform, with 24 validated so far. No revenues are expected until next year.

In the year to March 2014, Omega improved its underlying profit by two-fifths to £1.1m on the back of a 3% rise in revenues to £11.6m. The improvement came in the food intolerance division where both revenues and profit contribution were higher. The allergy and infectious diseases divisions lost money on lower revenues.

OMEGA DIAGNOSTICS (ODX)			19.13p
12 MONTH CHANGE %	+10.9	MARKET CAP £M	20.8

A profit of between £1.3m and £1.5m is forecast for the year to March 2015. There is a wide range of expectations for profit in 2015-16 based on how conservative the analyst is when it comes to potential CD4 sales. The profit forecast range is £1.7m to £3.5m depending on whether CD4 generates revenues of £2m or £5m in the year. Given the prospects for Omega, not just CD4, the 2015-16 multiple of 12 on the lower profit forecast is still attractive.

Asset-backed progress for CareTech

Social care provider *www.caretech-uk.com*

Social care provider **CareTech** has diversified into fostering and training services but the full benefits of this have not come through yet. The residential care business for adults with learning disabilities remains the core and it provides asset backing for the company as well as a long-term income stream.

CareTech says that the overall value of the social care markets that it targets has trebled to £9bn a year since it joined AIM in October 2005. This is via a combination of growth in the market and the broadening of the range of services offered by the company. The occupancy levels of the residential homes operated by CareTech have been maintained at 92%. Fees are rising slightly.

CARETECH (CTH)			251.5p
12 MONTH CHANGE %	+48.8	MARKET CAP £M	130.8

Last November, CareTech acquired EQL Solutions, which provides pre-employment training and work-based learning. The attraction is the opportunity to train staff and the people that use CareTech's services. In the six months to March 2014, group revenues were 9% ahead at £61.5m, although the majority of the improvement came from EQL's five-month contribution. Underlying profit was 12% higher at £8.5m. The purchase of 29 freeholds last year has boosted the profit contribution from residential care. Net debt was £165.7m at the end of March 2014.

Not everything is going well. Foster-care services made a lower contribution. A residential family assessment centre was closed and the number of foster carers fell. CareTech is recruiting more foster carers, which should contribute to a second-half recovery.

Analysts expect an improvement in underlying full-year profit from £17.5m to at least £20m. The shares are trading at just over eight times prospective 2013-14 earnings.

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Stanley Gibbons set to reap benefits of acquisitions and online strategy

Collectibles supplier — *www.stanleygibbons.com*

Collectibles retailer **Stanley Gibbons** is set to reap the benefits of its acquisition of coins dealer Noble and it expects to launch its online marketplace later this year. The broader range of collectibles will help Stanley Gibbons to grow and its world-famous brand name will give it a strong position in the online market.

The latest figures are for a 15-month period and profit has been held back by the £1.8m investment in the online marketplace. Stanley Gibbons reported a profit of £5m on revenues of £51.8m in the period to March 2014. That is before £2.8m of exceptional charges relating to acquisitions and pensions.

Stanley Gibbons has ecommerce websites for certain brands in the group but the wider-ranging online trading website is still being tested ready for a full launch before the end of the year.

A profit of £11.2m is forecast for 2014-15

Net cash was £9.5m at the end of March 2014 and there should be a further cash inflow from the sale of Baldwin's freehold property at Adelphi Terrace, London, which came with the Noble acquisition – the staff are moving in to Stanley Gibbons' Strand offices. That disposal could raise £4m.

The stock figure on the balance sheet has doubled over the 15 months to March 2014 to £42m. This is due to a combination of the inclusion of stock from the acquisitions of Noble and Murray Payne and securing additional collections of philatelic rarities that will generate revenues and profit in the coming years. House broker Peel Hunt reckons that the current stock level could generate more than £100m in sales. A profit of £11.2m is forecast for 2014-15 thanks to integration and cross-selling benefits from the Noble acquisition, which has also boosted the group's auction activities. The benefits of the online marketplace will take longer to show through. The shares are trading on more than 15 times 2014-15 earnings.

STANLEY GIBBONS (SGI)			304.5p
12 MONTH CHANGE %	+6.8	MARKET CAP £M	141.9

SyQic predicts better cash flow

Mobile content provider — *www.syqic.com*

SyQic, which provides TV content to mobile devices, has a business that has potential but it is difficult to become too excited by a company that has such poor cash generation. This is because Indonesian customer PTNP, which generated 60% of SyQic's revenues in 2013, is behind with its payments due to past regulatory issues. In the past four years, £1.57m in profit has been reported and there has been a cash outflow from operating activities of £2.54m in the same period.

Current trading is better than expected and it appears that 2014 revenues from PTNP should be paid more promptly. This was expected for the revenues from June 2013 but a few weeks after SyQic raised £1.85m in its AIM flotation at the end of 2013 a new agreement was put in place spreading the payments between 2014 and 2016. PTNP is on course with this payment plan and the previous one for the revenues generated before June 2013.

SYQIC (SYQ)			65p
12 MONTH CHANGE %	N/A	MARKET CAP £M	15.1

House broker Allenby forecasts 2014 revenues of £7.8m, up from £4.71m in 2013, and profit is expected to more than treble from £571,000 to £1.93m. The cash outflow from operating activities is forecast to reduce from £970,000 to £149,000. Yet tax payments of £145,000 are forecast for 2014 when no cash is being generated.

Allenby argues that its revenue and cash flow forecasts should prove conservative. The shares are trading on less than eight times 2014 prospective earnings.

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Quintain Estates deal transforms Palace Capital balance sheet

Property investor *www.palacecapitalplc.com*

Property investor **Palace Capital** is seeking further property portfolios to acquire but it is unlikely to do as well as the £39.25m purchase of Quintain's Sequel portfolio of secondary, regional property, which was acquired at a discount to NAV and a 13.2% yield. Even so, the experienced management of Palace could still secure attractive portfolios in order to build up the business. On top of this Palace has started paying dividends.

The figures to March 2014 include a few weeks contribution from the Sequel portfolio and also a £19.5m valuation uplift. Palace has been selling non-core properties from the Sequel portfolio and has also improved income generation on other properties.

> Palace is expected to pay an annual dividend of 12p a share

Net debt was £13.1m at the end of March 2014 and loan-to-book value was 31.9% at that date. Palace paid an initial dividend of 2p a share and announced a 2.5p a share dividend with its full-year figures. Palace is expected to pay a total annual dividend of 12p a share and the underlying cash profit, excluding valuation changes, can finance this outflow.

At the end of March 2014, NAV was £44.4m – 356p a share, which is 54% higher than two months earlier. Since the year end three new lettings deals have been announced, which will mean that the properties will continue to generate income although it will be at a slightly lower level. House broker Arden forecasts a 2014-15 profit of £3.65m.

That assumes no portfolio purchases. Palace is careful about what it buys and it has shunned acquisitions that will not give a sufficient return. Detailed discussions have commenced with the owners of one potential purchase.

PALACE CAPITAL (PCA)			305p
12 MONTH CHANGE %	+35.6	MARKET CAP £M	38.2

Redhall starts to regain credibility

Engineer *www.redhallgroup.co.uk*

Redhall Group has got into the habit of disappointing the market but the new management team has made a start on regaining credibility. It might take some time to recover investor confidence but Redhall should have a base from which to make progress.

In order to regain credibility, the new management has changed the way it calculates its order book. A more conservative estimate of work from framework agreements means that the order book is valued at £85m. That is lower than the previously reported order book level but using the same basis the comparative figure is £82m.

REDHALL GROUP (RHL)			28p
12 MONTH CHANGE %	-42.9	MARKET CAP £M	13.7

In the six months to March 2014, revenues fell 9% to £51.3m, while underlying profit fell from £498,000 to £233,000. That is before a £1m exceptional charge for balance-sheet provisions and asset write-downs. The manufacturing division improved its profit contribution, despite delayed contracts, but engineering and nuclear both made lower contributions. Net debt was £12.1m at the end of March 2014, thanks to a £7m placing, and the company's bank facilities will be refinanced prior to the end of September.

Problem contracts are no longer losing money and overheads have been reduced. There are opportunities for improvement in nuclear and defence, and food-sector customers are increasing their spending with the engineering division. There is scope to improve the margins of all of the divisions.

finnCap forecasts another fall in underlying profit this year from £1.6m to £1m, which puts the shares on 11 times prospective 2013-14 earnings. If Redhall can achieve the 2014-15 profit forecast of £1.7m, then the multiple will fall to nine.

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Sirius Real Estate builds base for growth

Workspace provider *www.sirius-real-estate.com*

SIRIUS REAL ESTATE LTD (SRE)	
Price (€)	0.34
Market cap €m	175.5
Historical yield	0.9%
Prospective yield	3.8%

Dividend

Germany-focused workspace owner and operator Sirius Real Estate has returned to the dividend list following the announcement of its figures for the year to March 2014. The initial dividend is €0.003 a share but from this year the policy will be to pay 65% of recurring profit after tax, which excludes gains on revaluations. There will be two dividends a year. Peel Hunt forecasts a 2014-15 total dividend of €0.013 a share – based on unchanged recurring profit.

The company was originally known as Dawnay Day Sirius when it joined AIM in May 2007 and it paid a maiden dividend of €0.01 a share for 2006-07, followed by €0.025 a share in 2007-08. Dividend payments were subsequently suspended in order to conserve cash resources. Sirius is now in a much stronger financial state.

Business

Sirius owns and operates 33 business parks, industrial facilities and offices in Germany. The company offers flexible workspace predominantly aimed at small and medium-sized companies, although it also has large companies, such as Siemens, as clients. There is more than one million square metres of lettable space.

Management has refocused the business by selling non-core sites outside of the main business centres, such as Bremen, Berlin, Munich and Stuttgart. This completes the main restructuring of the company. This, along with a €40m placing at €0.24 a share, has enabled Sirius to reduce its bank debt from €286.4m to €226m. Loan to value has been cut from 65.4% to 50.9% and management wants to further reduce the figure to 40% over the next two years. Improved banking facilities were secured during the year and the weighted average interest rate is 4.7%.

In the year to March 2014, net rental income slipped slightly from €37.1m to €36.6m due to the non-core disposals. However, lower interest charges meant that underlying recurring profit improved from €8.7m to €11.3m. Revaluation gains meant that reported pre-tax profit was €31m. Average occupancy is 76% and investment in refurbishing sites is helping to improve returns. The annualised rent roll is currently €41.5m.

Adjusted NAV per share declined from €0.4844 a share to €0.4432 a share, which reflects the additional shares issued last year. Peel Hunt forecasts an underlying NAV of €0.47 a share for March 2015. The shares are trading at a 23% discount to the current NAV.

The German economy remains strong and there is a high level of enquiries from potential clients. Sirius is in a much stronger position than it has been for many years and it is ready to acquire further properties without the need to increase overheads. Sirius has already identified properties with attractive yields and negotiations have started about two business parks, which could be acquired for around €19m.

Dividend news

Carpets manufacturer **Victoria** is paying a special dividend of 292p a share, which will cost £20.7m. Bank facilities provider Barclays has agreed to the dividend payment. Executive chairman Geoffrey Wilding will receive a cash bonus as part of an incentive agreement that will be triggered by the dividend payment, which takes total dividend payments since the agreement started to 300p a share. He intends to reinvest this cash in Victoria shares and this will give him 50% of the company. The shares go ex-dividend on 16 July. Victoria has already said that its results for the year to March 2014 will be better than expected.

A mild winter hit demand for animal feed and meant that **Wynnstay** reported a 10% fall in interim pre-tax profit to £4.7m but this did not stop the agricultural supplies and specialist retail business increasing its interim dividend by 10% to 3.4p a share. A good harvest is expected for this year and this will show through in the secvond half. The Carmarthen & Pumsaint Farmers business acquired last October made no profit contribution in the first half but it is expected to make a contribution in the second half. Further bolt-on acquisitions are being sought.

Hangar8 plans to pay a maiden full-year dividend of 2.3p a share. This will be confirmed when the passenger jet aircraft operator and manager reports its figures for the year to June 2014 at the end of October. Management says that EBITDA will be ahead of expectations. There has been growth in the managed aircraft fleet plus additional revenues from newer services, such as in-house engineering for aircraft maintenance. Hangar8 recently opened an aircraft paint facility. Management is hopeful that the improving economy will result in increased demand for its services.

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expert views

Expert view: The broker

Stored value to be released at Lok'nStore

By GUY HEWETT

The improving UK economy and continued attractive returns in UK self-storage support Lok'nStore management's decision to resume investment in growth. Over the next 18 months, Lok'nStore's storage space will be expanded by 9%, financed from existing bank facilities.

Despite expected growth in earnings and dividends, the shares are valued at a 17% discount to historical NAV and a 23% discount to our July 2016E NAV. We initiate with a Buy recommendation and 30% upside to our share price target.

Self-storage

The UK has c.975 self-storage centres providing 34.4m sq ft of space or 0.5 sq ft per person. This compares with 7.3 sq ft per person in the US, 1.4 sq ft per person in Australasia and 0.12 sq ft per person in continental Europe. The UK self-storage market is, therefore, significantly undersupplied in comparison to both the US and Australasia. Further, while the returns from each store are highly dependent on the local market and its specific location, a well-positioned store quickly starts to earn attractive returns.

We expect the whole self-storage sub-sector to see more investor attention as the positive impact on occupancy, pricing and profits is evidenced. This growth will be driven by improving market conditions and the sector moving on from the negative impact that the imposition of VAT in October 2012 had on pricing.

The fact that Lok'nStore had always charged VAT is particularly positive in terms of our assessment of the company's management but its negative impact on market pricing will have been felt by all.

Lok'nStore operates 24 self-storage centres (12 freeholds, nine leaseholds and three management contracts) and has three new sites in development, all largely in South East England. They are very well placed to benefit from improved UK economic conditions and the strength of the housing market.

Lok'nStore's development pipeline will add 9% to its owned letable space and will be financed from the company's existing debt facilities. This growth in space will be completed over the next 18 months.

Unlike its quoted peers, Lok'nStore did not have to raise equity during the financial crisis, evidencing management's ability to balance investment for the company's long-term growth potential against short-term uncertainties, and a cautious attitude towards financing.

The balance sheet remains strong. We forecast loan to value of 32.3% at July 2014, up from the 30.6% reported at January 2014, and then peaking at 33.9% at July 2015 as the cost of expansion is partly offset by the £2.9m of disposal proceeds from the Reading site. We then forecast a fall to 31.3% at July 2016 as the disposal proceeds from the old Southampton site are received (we assume £2m).

Lok'nStore has a revolving credit facility of £40m expiring October 2016 and we forecast net debt to peak at £30m in 2015.

NAV

The historical NAV of 248p a share includes Maidenhead at a cost of £4.6m (19p per share). This store opened in December 2013 and is trading very strongly. By 2016, we assume 10p of additional value will have been released to the NAV from this site, with the potential for a further 10p in the medium term. Similar upside to NAV should be seen from the new Bristol and Southampton stores and our 2016 forecast includes 10p of additional value with a further 30p to be released in subsequent years.

Lok'nStore is valued at a 17% discount to adjusted historical NAV. This stands in stark contrast to its competitors which are valued at between a 10% and 22% premium to NAV.

While Lok'nStore's smaller market capitalisation and lower liquidity may continue to influence this valuation comparison, we believe that the discount to NAV will be removed as occupancy and pricing benefits from the UK economic recovery and management resumes investment in growth.

We forecast average EPS growth of 19% over the next three years despite the exhaustion of tax losses and, assuming dividend cover rises from 1x to 1.1x, average annual dividend growth of 15%.

We see no reason for a well-financed, asset-backed growth story to be trading at a 17% discount to its historical NAV. Indeed, Lok'nStore's peers are trading between a 10% and 22% premium, despite forecasts of slower EBITDA growth than Lok'nStore. We set our price target at our 2016E NAV forecast of 272p.

Lok'nStore operates 24 self-storage centres and has three sites in development

GUY HEWETT is a research director at finnCap

Strong fundamentals behind AIM company outperformance

Share price performance research shows that fundamentals such as a good track record, strong balance sheet, profitability and dividends are some of the main positive drivers of share prices.

What moves small-cap share prices?, a research report published by GrowthBusiness.co.uk in association with accountant Crowe Clark Whitehill (http://www.crowehorwath.net/uk/uploadedFiles/UK/industries/SharePriceResearch2014%20(1).pdf), identifies the best-performing AIM shares over the past three years and it shows that gaining a reputation for beating expectations, a strong balance sheet, sensible acquisition strategy and paying a dividend are some of the keys to a strong share price performance on AIM.

For this research, the AIM sample included all of the AIM-quoted companies valued at £20m or more and the share price performance is measured over three years so this helps to make sure that there is a positive trend rather than just a short-term spike in the share price. Some of the more frothy, short-term outperformers are not included because they do not sustain their gains over a longer period. It also means that companies floating during the three year period are not eligible for the list – although they are included if they move between markets.

One of the most noticeable things about the list is the lack of resources companies. The mining and oil and gas sectors have performed badly but there are normally a few companies in the sector that do better than the rest. Sierra Rutile is the only mining company in the top 50. There are two oil equipment and services businesses – Thalassa Holdings and Plexus - while Quadrise Fuels International, which has a licence to manufacture an oil-in-water fuel emulsion that is a low-cost substitute for heavy fuel oil used in the power generation and shipping markets, is the only company in the oil and gas producers sector on the list.

The median market value of the top 50 AIM companies is £88.1m, compared with £62.2m for the whole of AIM. The most recent price to book value of the better performers is 4.515 times, compared with a median for the AIM sample of 1.84 times book value.

The vast majority of the best-performing AIM shares pay a dividend

Most of the best-performing shares are in profitable companies. Median profit growth for the top 50 AIM companies over a three-year period is 168%. The vast majority of the best-performing AIM shares pay a dividend – a greater proportion than for AIM as a whole. There are 30 of the top 50 AIM companies with net cash (cash and deposits minus borrowings and hire purchase) at their most recent year end and 21 of those generated cash from their operations last year.

Tracsis

Tracsis is an example of a company that has many of the qualities associated with the better performers on AIM. Tracsis has a strong balance sheet, pays a dividend, consistently meets or beats profit expectations and has a stated acquisition strategy to consolidate resource optimisation, reporting and data capture software and services in the transport sector.

At the end of June, house broker WH Ireland published its latest upgrade for Tracsis on the back of a trading statement that stated that all parts of the business were trading significantly ahead of expectations. Estimated revenues for the year to July 2014 have been upgraded from £17.5m to £21.5m, while forecast pre-tax profit has been increased from £3.9m to £5m, compared with £3.3m in 2012-13. Net cash of £7m is forecast for the end of July 2014, although the forecast dividend is unchanged at 0.8p a share. That is covered more than 18 times by earnings so there is scope for a higher dividend. There has also been a substantial upgrade to the 2014-15 profit forecast from £4.5m to £5.5m.

This has been achieved via a combination of organic growth and increasing contributions from acquisitions. The latest acquisition is rail management software systems provider Datasys Integration. This acquisition ticks all the boxes for an acquisition because it is a profitable business with a management team that is being retained and there

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are cross-selling opportunities. The Datasys software helps rail companies to analyse the causes of delays. The acquisition cost £3.23m, net of cash in the acquired business, and it is earnings enhancing. Forecast earnings per share for the year to July 2015 had already been upgraded on the back of the purchase. They have been further increased from 13.3p a share to 16.4p a share.

Since floating on AIM in November 2007, Tracsis, whose original business was spun out of the University of Leeds, has made six acquisitions, including that of Sky High, a fellow AIM company, in March 2013. Sky High undertakes traffic surveys and collects data and gave Tracsis a presence in Australia which will help it to sell its other products and services.

Tracsis chief executive John McArthur has specific requirements for bid targets. He is keen to buy profitable businesses with recurring revenues that already have a good management team which agrees with the acquisition and is retained after the acquisition. The target company should also have a niche business with high barriers to entry for competitors as well as cross-selling opportunities.

The acquisition that had the most influence on the share price performance over the past three years was MPEC, which supplies data logging and remote monitoring technology for Network Rail. MPEC was acquired for £2m in June 2011 and has generated more than that in profit since the deal.

Main Market moves

The research also covers Main Market companies outside of the FTSE 350 index. There are six of the top 50 Main Market companies that were previously quoted on AIM. This includes two out of the top three – Skyepharma and Tribal Group. Skyepharma was the first company to move from AIM to the Main Market, just over 18 years ago (on 3 May 1996). Outsourced services provider Tribal moved to the Main Market on 8 July 2002, escrow and assurance services provider NCC on 13 July 2007, drugs developer Vectura on 18 July 2007 and social housing repairs provider Mears on 23 June 2008.

Door and window components supplier Tyman is the company in the top 50 that most recently moved from AIM, although in fact it has already made the move before. On 18 November 1997, Dean Corporation, as it was then known, was the 18th company that moved to the Main Market but it returned to AIM on 4 April 2006 after it had changed its name to Lupus Capital. The reason for the move back to AIM was the acquisition of door seals manufacturer Schlegel, which did not have three years of financial information as a separate entity. Tyman returned to the Main Market on 8 July 2013.

NCC is a good example of how a business can move ahead on AIM and then switch to the Main Market to make further progress. NCC offers software escrow and verification services and cyber security consulting. These are growing markets and NCC has a high market share in these niches.

In the ten years since it floated on AIM, NCC has paid out 63% of its issue price of 170p a share in dividends. The company was valued at £55.4m in July 2004 and it was valued at £389m at the time of the research. The share price was 87.5% higher than three years before.

The future is bright not just for the original core businesses but also for the new domain services business. The proliferation of new internet domains presents a security problem for companies and brands. For many internet domains, it is possible for someone else to register a website in the brand's name and anyway it is costly buying the website for each domain. NCC reckons that buying each domain for one bank would cost it $52,000 a year.

NCC is launching the .trust domain and it will ensure that only the company and brand can acquire the website for this domain, thereby giving consumers more confidence that they are accessing a safe site on what NCC describes as an online gated community. The division is making start-up losses but it should move into profit next year.

AIM'S BEST PERFORMERS

COMPANY	BUINESS	MARKET CAP (£M)	1-YEAR CHANGE (%)	3-YEAR CHANGE (%)
Sigma Capital	Property	45	237.9	818.8
Thalassa Holdings	Oil services	62	72.9	666.2
PureCircle	Sweeteners	987	109.8	521.8
Tracsis	Rail optimisation software	75	68	501
Quadrise Fuels	Oil technology services	266	190.1	500
Optimal Payments	Online payments	554	113.5	486.8
Mar City	Residential property	149	138.9	468.4
Regenersis	Technology services	285	60.1	438.8
Trakm8	Telemetry services	23	290.1	393.8
Plexus	Oil equipment	241	34.3	385.5

Note: Performance of AIM companies valued at more than £20m over three years to 10 May 2014.

Tracsis is a company that has many of the qualities associated with the better performers on AIM

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statistics

Market Performance, Indices and Statistics

AIM SECTOR INFORMATION

SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Financials	20.4	19
Consumer services	15	10.3
Oil & gas	14.3	11.9
Industrials	23.6	17.6
Technology	11.4	10.4
Healthcare	7	6.1
Basic materials	6.9	16.2
Consumer goods	6.5	5.8
Telecoms	3.3	1.4
Utilities	1.6	1.4

FTSE INDICES

ONE-YEAR CHANGES

INDEX	PRICE	% CHANGE
FTSE AIM All-Share	785.39	+13.6
FTSE AIM 50	3881.53	+8.5
FTSE AIM 100	3396.04	+7.4
FTSE Fledgling	6959.56	+28.6
FTSE Small Cap	4442.46	+16.4
FTSE All-Share	3600.19	+9.4
FTSE 100	6743.94	+8.5

COMPANIES BY MARKET CAP

MARKET CAP	NO.
Under £5m	222
£5m-£10m	150
£10m-£25m	216
£25m-£50m	179
£50m-£100m	134
£100m-£250m	132
£250m+	66

KEY AIM STATISTICS

Total number of AIM	1099
Number of nominated advisers	46
Number of market makers	51
Total market cap for all AIM	£76.3bn
Total of new money raised	£87.1bn
Total raised by new issues	£38.3bn
Total raised by secondary issues	£48.8bn
Share turnover value (2014)	£21.6bn
Number of bargains (2014)	2.88m
Shares traded (2014)	142.2bn
Transfers to the official list	169

TOP 5 RISERS OVER 30 DAYS

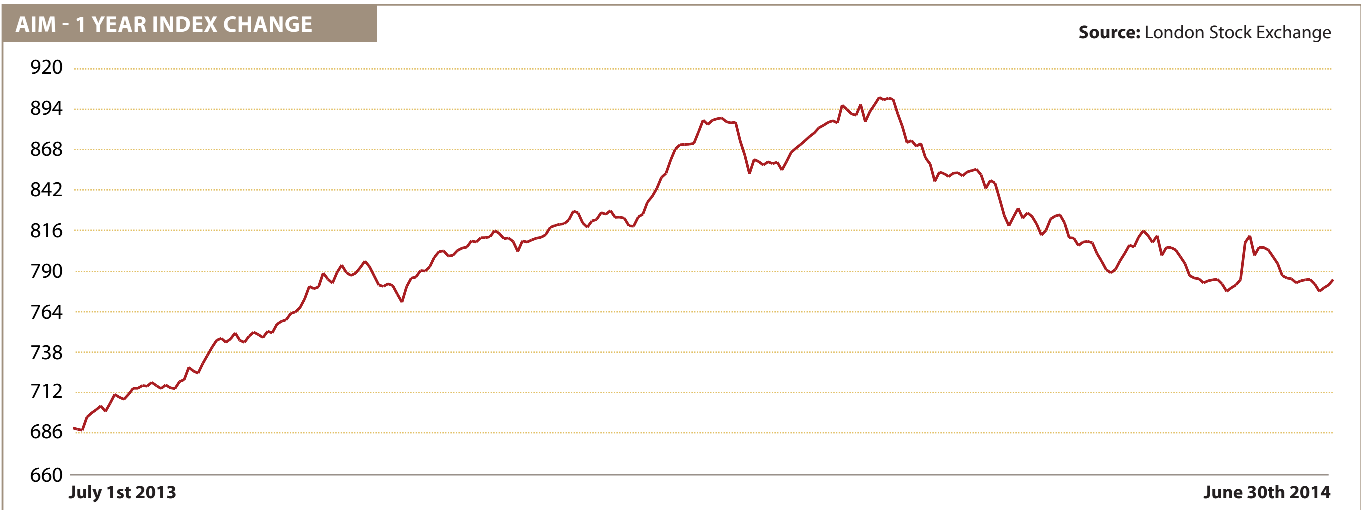
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Leni Gas & Oil	Oil and gas	3.98	+167.7
Clontarf Energy	Oil and gas	0.93	+105.6
Bglobal	Shell	12.5	+92.3
Hurricane Energy	Oil and gas	51.25	+85.5
Cyan Holdings	Technology	0.29	+78.8

TOP 5 FALLERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Tower Resources	Oil and gas	1.12	-62.8
Gasol	Oil and gas	6.38	-60.5
Outsourcery	Technology	30	-47.8
Aortech International	Health	30.5	-46
Publishing Technology	Media	165	-44.5

AIM - 1 YEAR INDEX CHANGE

Source: London Stock Exchange



Data: Hubinvest Please note - All share prices are the closing prices on the 30th June 2014, and we cannot accept responsibility for their accuracy.

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finnCap, whose chairman is Jon Moulton, is 95% employee-owned and is 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 broker in the oil and gas sector and in the top five in the basic materials sector.

In 2013, finnCap commenced market making and launched fAN Club, a new offering aimed at providing specialist support to ambitious small private businesses seeking pre-IPO funding.

finnCap was presented with the Best Research award at the 2012 AIM Awards, while finnCap's corporate broking and sales trading teams have achieved Extel Top 10 rankings for three years running. finnCap is a sponsor of the AIM Awards, the plc Awards and the UK tech Awards.

In the year to April 2014, finnCap reported a 36% jump in revenues to £15.5m and operating profit was 92% higher at £5m. The finnCap 40 Mining index, finnCap 40 E&P index and finnCap 40 Tech index were launched in 2014.

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