



MAY 2017

AIM JOURNAL

THE ONLINE MONTHLY FOR THE ALTERNATIVE INVESTMENT MARKET

VCTs increase cash pile

Venture Capital Trusts (VCTs) raised £542m in the 2016-17 tax year, which is the second-highest amount in a single year. Specialist AIM VCTs had particularly successful fundraising efforts, with some closing their offers well before the end of the tax year, so this is good news for AIM companies seeking investment.

Unicorn AIM VCT had already raised the £15m it was seeking by early February. The cash raised was 18% higher than the £458m raised in the 2015-16 tax year. Restrictions on pension investment have led investors to seek other ways to invest for the longer term. The highest amount raised in one tax year was in 2005-06,

when £779m was raised but the income tax relief rate was 40%, rather than 30% as it is currently. There are £3.9bn of VCT assets under management.

There are other new sources of finance for smaller companies. Downing Strategic Micro-Cap Investment Trust raised £54.5m after expenses. This is not a VCT but it is another potential investor for small companies with a market value of less than £150m. Many of these will be too large to be qualifying investments for VCTs. Downing is likely to take significant stakes because it is aiming to have a portfolio of between 12 and 18 investments.

Mariana's Sandstorm merger

Mariana Resources is recommending a £167m merger with the much larger Sandstorm Gold, which is already a 7% shareholder. There could be more M&A activity in the mining sector as companies with cash flow acquire others that have attractive assets.

The offer of 28.75p in cash and 0.2573 of a Sandstorm share valued each Mariana share at 110p – based on a Sandstorm share price of \$4.04. Sandstorm is traded on the Toronto and New York stock exchanges. The share price has subsequently fallen but the offer is still worth more than £1 a share – around two-thirds higher than the Mariana share price prior to the

announcement. The cash part of the offer is higher than the Mariana share price one year ago.

The enlarged group will have interests in 155 projects, including 20 producing projects and others at varying stages of development or at the exploration stage. The majority of the company's projects are in North America. Mariana's 30%-owned joint venture interest in Turkey-based gold-copper project at Hot Maden is the main attraction. Once this project has been further developed, Sandstorm intends to find a buyer for the 30% interest so that it can swap it for a future revenue stream based on gold production.

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general news

City Pub Company set for AIM quote

City Pub Company says that it is still on track to join AIM by the end of 2017. The pubs operator has 32 pubs and it expects that it will run 35 pubs by the time it joins the junior market. The company has an experienced management that has successfully built up pub businesses in the past.

City Pub Company was founded at the end of 2011 by Clive Watson, David Bruce and former Fullers managing director John Roberts. Watson and Bruce founded the business after selling former AIM-quoted pub operator Capital Pub Company to Greene King for £70m in July 2011. The focus is good-quality pubs in major cities in the south of England.

Growth has been financed by Enterprise Investment Scheme-eligible share issues. The group has

been split into City Pub Company (East) and City Pub Company (West) which have separate management teams headed by former Capital Pub Company managers. The two companies will be merged before a flotation goes ahead.

In 2016, sales were 37% higher, at £27.4m, while operating profit jumped 61.5% to £2.4m. City Pub Company also announced a maiden dividend of 1.5p a share. Eligible employees received more than £500 each as part of the group's profit-share scheme.

Management believes the company can expand to more than 50 pubs given its current management infrastructure. Growth is expected to offset the effects of higher wages and other costs. First-quarter trading has been strong and there is a pipeline of potential pub acquisitions.

SDX discovery

North Africa-focused SDX Energy Inc has discovered gas in the Abu Madi structure of the South Disouq SD-1X well and there were signs of oil at a greater depth. The gas find is near to existing pipelines so production could commence before the end of this year – depending on the nature of the gas. There is an estimated 585bcf of gas in the area and this well appears to unlock a significant chunk of that resource. SDX has a 55% equity interest and is the operator of the South Disouq concession in the Nile delta area of Egypt. SDX has \$18.3m in cash and it is generating cash. Edison estimates that the company may have to spend \$22.9m on capital investment this year and double that figure in 2018.

Grant Thornton fine for AssetCo audit

The Financial Reporting Council (FRC) has fined accountant Grant Thornton £2.275m and severely reprimanded the firm because of failings in the audit of AIM-quoted outsourced fire services provider AssetCo. This could be good news for shareholders because the new management of AssetCo is preparing legal action to claim a possible £40m in compensation from Grant Thornton.

The court proceedings were not due to be heard until the summer of 2018 but admission of guilt to the FRC by the company's former auditor should strengthen the position of AssetCo. The company's market capitalisation is £37.6m,

so any compensation payment is likely to be significant.

The FRC's judgement relates to the AssetCo accounts for the financial years to March 2009 and March 2010. These accounts were subsequently restated showing a swing from net assets to net liabilities. The original 2009-10 accounts showed net assets of £60.8m but this was restated to net liabilities of £85.4m.

The FRC says that the respondents admitted misconduct and that their audit suffered from "a significant failing in the application of professional scepticism". The accountancy regulator also says that there

were instances of deceit by senior management at AssetCo. Former Grant Thornton partner Robert Napper was fined £130,000 and banned from auditing for three years.

Back in 2010, AssetCo had outsourcing agreements with the London and Lincolnshire fire brigades. The business has slimmed down and it has one major fire services training contract in the United Arab Emirates, which has been renewed for a further year until November 2017. The balance sheet is already strong, with net cash of £15.5m plus a further £3m of restricted cash balances.



advisers

Shore improves capital markets performance

Shore Capital Group reported lower revenues and profit for 2016 but if one-off gains and losses in the principal finance division are excluded there was an improvement in underlying trading. The capital markets division grew its revenues by one-fifth to £28.3m and pre-tax profit by 45% to £6.79m.

The capital markets division includes corporate finance, broking and market making. Shore has grown at a time when many of its peers are finding trading tough with a decline in new admissions and other transactions. Shore is the third-largest market maker on the London Stock Exchange and it is also one of the market makers for NEX Exchange. The volatility caused by the EU referendum and the US presidential election provided opportunities to boost profit last year.

Howard Shore is moving from chief executive to chairman of the group.

Simon Fine and David Kaye are taking over as joint chief executive.

Small Cap Awards 2017

Four AIM companies are in the running for company of the year at this year's Small Cap Awards. The 2017 awards will be held at the Montcalm Hotel in London on Thursday 22 June (see <http://www.smallcapnetwork.co.uk/awards-2017/>).

Domino's Pizza franchise operator DP Poland, utility installation services provider Fulcrum Utility Services Ltd, musical instruments retailer Gear4Music and fertiliser project developer Harvest Minerals are all on the company of the year shortlist.

DP Poland is still losing money but it has built up a chain of 39 Domino's Pizza stores in Poland. Management expects to have 50 stores open by the end of this year.

Fulcrum has expanded into the

electricity and water sectors, while still growing its core gas pipeline installation business. At the end of March 2017, the order book had grown by one-third to £29m. Fulcrum is also building a portfolio of owned gas pipeline assets.

York-based Gear4music was on the IPO of the year shortlist in last year's awards, although it lost out to Bilby. In the year to February 2017, revenues were 58% higher at £56.1m with overseas sales more than doubling, following the opening of a distribution centre in Sweden. A German distribution centre has just opened.

Harvest Minerals is focused on the Arapua fertiliser project in Brazil and it gained its trial mining permit at the end of 2016. The final exploration report has been submitted and this is part of the application for a full mining licence – that may still take until the end of 2018.

ADVISER CHANGES - APRIL 2017

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
Union Jack Oil	SP Angel	Shore/SP Angel	SP Angel	Shore	04/04/17
LGO Energy	VSA/Beaumont Cornish	Beaumont Cornish	Beaumont Cornish	Beaumont Cornish	05/04/17
Pembridge Resources	Shard/SI Capital/ Beaufort	SI Capital/Beaufort	SPARK	SPARK	10/04/17
Green & Smart	Cantor Fitzgerald	SP Angel	Cantor Fitzgerald	SP Angel	11/04/17
Vertu Motors	Canaccord Genuity/ Zeus	Zeus/Liberum	Canaccord Genuity	Liberum	12/04/17
Bilby	Northland	Cenkos	Northland	Cenkos	14/04/17
4d Pharma	Investec/Zeus	Zeus	Zeus	Zeus	18/04/17
Faroe Petroleum	BMO Capital/ Stifel Nicolaus	Stifel Nicolaus/RBC	Stifel Nicolaus	Stifel Nicolaus	25/04/17
Zoltav Resources Inc	SP Angel/Panmure Gordon	Shore/Panmure Gordon	SP Angel	Shore	25/04/17
Motif Bio	Peel Hunt/Northland	Northland/Zeus	Peel Hunt	Zeus	28/04/17

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company news

Smart software sales growth will boost margins and profit for RedstoneConnect

Smart buildings technology

www.redstoneconnectplc.com

RedstoneConnect has transformed itself into a smart buildings-focused technology business with a growing recurring revenue base. Sales of OneSpace software will be an increasing component of the business in the next few years.

In the year to January 2017, revenues edged up from £40.1m to £41.5m but gross profit was one-third higher at £9.2m as RedstoneConnect focused on higher-margin business and the first contribution was made by software sales. The group swung from loss to a profit of £1.2m.

The group is renewing managed services contracts and its software has customers that can demonstrate its effectiveness. Both UBS and UBM

One-fifth of this year's operating profit could come from software

are using the software in the UK and overseas. The software helps companies to use their workspace more efficiently by fitting more people into the space and reducing energy consumption. There are proof of concept and paid for pilots being run with multiple customers.

Broker Whitman Howard believes that one-fifth of this year's operating profit could come from software. Managed services revenues are also

REDSTONECONNECT (REDS)		1.63p
12 MONTH CHANGE %	+12.4	MARKET CAP £m
		26.7

expected to grow but the systems integration operations revenues are likely to be slightly lower, although its margins are much lower than the other businesses so it will not hamper profit growth.

There is a strong order book. Cantor Fitzgerald forecasts a 2016-17 profit of £2.2m. The shares are trading on 15 times prospective earnings, falling to 12 the following year. There is potential for add-on acquisitions to broaden the group's technology and customer base.

Still a long way to go for Nasstar

Cloud computing services

www.nasstar.com

Managed cloud-based services provider **Nasstar** is a business where 88% of its revenues are recurring and there is still enormous potential for its market to grow. Acquisitions have helped the company to build up significant shares in specific sectors. Nasstar branding is replacing the individual brands of the acquired businesses.

In 2016, revenues increased from £13.8m to £18.7m. Organic growth was 5% and that should continue to be achievable. Underlying pre-tax profit improved from £1.6m to £1.9m. The dividend has been raised from 0.045p a share to 0.052p a share and it remains well covered. Net debt was £2.8m at the end of the year.

NASSTAR (NASA)		8.75p
12 MONTH CHANGE %	-1.5	MARKET CAP £m
		50.7

Rises in the cost of Microsoft licences, because they are sold in dollars, was part of the reason for a small dip in gross margin from 70% to 69%. Overhead savings from the integration of acquisitions should help to improve operating margins as revenues grow.

The monthly run-rate of recurring revenues has increased from £776,000 in the first half of 2014 to £1.79m in the second half of 2016. This is via a combination of organic growth and acquisitions. VESK, which

was bought in October 2015, has not performed as well as expected and this means that the potential deferred consideration is not payable and 5.3 million shares that have already been issued to the vendors have been cancelled.

Tax losses will be used up this year and the rise in the tax charge will hold back earnings per share growth in the next couple of years. House broker finnCap predicts a profit of £3.5m this year thanks to a 12-months contribution from the Modrus acquisition, which would put the shares on 16 times forecast 2017 earnings, falling to 12 in 2018. This does not fully reflect the strength of the recurring revenues base.

**company news**

Foreign exchange fuels expansion for pawnbroker Ramsdens Holdings

Pawnbrokerwww.ramsdensplc.com

Ramsdens differs from other pawnbrokers because it generates a significant proportion of its profit from providing foreign currency for customers. In fact, more than one-third of gross profit comes from foreign exchange trading. This contributes to a better spread of business. A positive trading statement led to a 13% upgrade in earnings estimates for the year to March 2017.

Like its rivals, Ramsdens grew on the back of gold buying and it was not immune to the downturn in this business. There was a management buyout in 2014 and the business was turned around with help from growth in the foreign exchange operations.

Net cash is estimated to be £9.7m

Ramsdens joined AIM earlier this year. The money raised mainly went to the management buyout backers but Ramsdens has a strong balance sheet so it did not need to raise cash. Net cash is estimated to be £9.7m at the end of March 2017 and this figure will grow even with a strategy of new store openings.

Ramsdens is already one of the largest pawnbroking chains in the UK but there is still a lot of room for expansion. The store portfolio is mainly sited in northern England,

RAMSDENS HOLDINGS (RFX)		115.5p
12 MONTH CHANGE %	N/A	MARKET CAP £M 35.6

Scotland and Wales. There are 127 stores, with 12 openings planned for 2017. Management carefully researches new sites and visits the town a number of times before making a decision.

In the short term, growth is going to come from the foreign exchange and retail jewellery activities, with the core pawnbroking operations likely to be flat. Liberum forecasts an underlying pre-tax profit of £3.84m for 2016-17, rising to £4.5m this year. That puts the shares on ten times 2017-18 prospective earnings.

Positive trial news from Motif Bio

Antibiotics developerwww.motifbio.com

Motif Bio has announced positive phase III clinical trial data for potential antibiotic Iclaprim for its use with patients with acute bacterial skin and skin structure infections (ABSSSI).

The REVIVE-1 data shows that the drug is reliable and safe. The drug was well tolerated with most adverse effects classed as mild. Iclaprim was compared with the existing treatment vancomycin. The results were similar – based on the achievement of at least 20% improvement within three days – and Iclaprim was nearly as good as vancomycin over a period up to two weeks.

MOTIF BIO (MTFB)		38.25p
12 MONTH CHANGE %	-19.5	MARKET CAP £M 74.1

The second trial, REVIVE-2, is due to report in the second half of this year. Following these results, Motif will be able to submit a new drug application to the FDA in the US.

Iclaprim is a new antibiotic, an area in which new treatments are required because existing ones are becoming less effective. The probability of success has improved significantly following the latest trial news. However, Motif does require additional

funding to complete the studies. The appointment of Peel Hunt as nominated adviser and joint broker could help. The cash does not have to come from a share issue, though, it could be obtained from a partnership or licensing deal.

The share price has recovered since the announcement of the trial news and it is heading back to the level it was prior to its fundraising for the Nasdaq listing last year. Iclaprim has fast-track status with the FDA in the US and there is a possibility, if the trial results continue to be positive, that it could gain regulatory approval in the US by the end of 2018.

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company news

Epwin continues to generate cash despite currency-related cost increases

Building products manufacturer

www.epwin.co.uk

Window and door components supplier Epwin did not provide any surprises with its 2016 results and, although there was some shaving of 2017 estimates, it appears that the company can cope with increased costs and maintain profitability even in the present market. In the short term, trading appears likely to be tough but longer-term prospects are positive.

In 2016, revenues were 14% ahead at £293.2m and pre-tax profit 24% higher at £23m. Earnings per share grew by 22%. The total dividend was 3.6% higher at 6.6p a share. Net debt was higher at £20.6m because of the cash spent on acquisitions and capital investment but cash generation from operations

Capital investment will improve efficiency

remains strong. That debt figure should fall sharply over the next couple of years.

So far, cost increases due to the decline in sterling since last summer have been passed on and capital investment will improve efficiency and lower scrap rates. Product development will also help the business to grow over the medium term. Management believes that upgrades and repairs to windows will inevitably be required as current windows age. It expects the current replacement

EPWIN (EPWN)		123.75p
12 MONTH CHANGE %	-11	MARKET CAP £m 179

rate of 2% a year to increase. New build is not as important to Epwin as the replacement market but the need for more housing is likely to create further demand in this sector of the market.

This year's profit is likely to be flat but the dividend will be edged up. The shares are trading on nine times earnings and the yield is 6%. That is attractive both in terms of income and potential growth over the long term, especially as cash will continue to flow through to more than cover dividends and capital expenditure.

Fishing Republic online success

Fishing tackle retailer

www.fishingrepublic.net

Fishing Republic is laying the foundations for a much larger business but the benefits of the new store openings are not yet showing in the results and it may be a little while before they do. The fishing tackle retailer added five stores to its network taking it to 12 by the end of 2016 and three have already opened this year with three more being added by the summer.

In 2016, revenues grew from £4.12m to £5.8m – like-for-like store growth was 16% - and underlying pre-tax profit was one-third higher at £403,000. The £3.75m raised in a share placing

FISHING REPUBLIC (FISH)		44.5p
12 MONTH CHANGE %	+52.1	MARKET CAP £m 16.5

last June held back earnings per share because the cash is still being invested. Net cash was £2.06m at the end of 2016 with some of the cash going into a rise in inventories in order to stock up the new stores.

As well as opening new stores, Fishing Republic is improving its online revenues. Although there was a dip in overall online sales this reflects the move from lower margin business via the likes of

Amazon to sales via the company's own upgraded website. The average sale per customer on the company's website was £56.28, compared with £14.02 for third party sites. This was before the new website was launched in March 2017.

A profit of £500,000 is forecast for 2017 and earnings per share are set to grow again. As the newer stores mature there should be further profit growth to come through to enhance earnings. There is potential for up to 50 stores as well as significant sales growth online.



dividends

Recruiter Harvey Nash expects AIM switch to pay off

Recruitment

www.harveynash.com

Dividend

Technology recruiter Harvey Nash is not currently on AIM but it is going through the process of switching to the junior market. Harvey Nash has not always paid a dividend as a quoted company but it currently offers an attractive income stream. Net cash reached £5.6m at the end of January 2017 as more cash was generated than was needed to finance the distributions.

Since 2009-10, the total dividend has been steadily increased from 2.2p a share to 3.85p a share in 2015-16. A total dividend of 4.09p a share was declared for the year to January 2017. That was an increase of 6% and a similar increase is expected this year. That would still be covered 2.1 times by forecast earnings.

Business

Harvey Nash joined the Main Market in April 1997 and at that time this seemed the correct home for the recruitment firm. There were 14 companies that joined AIM in the same month and they provide an indication why that choice was made two decades ago, as well as how things have changed on AIM.

The largest market valuation on the first day of trading was Avalon Oil, with a capitalisation of £76m, which was more than three times the capitalisation of any of the other admissions during the month. Five of the companies were readmissions and two of them, Sibir Energy and Wedderburn Securities, had the next two largest capitalisations at £25.5m and £20.2m, respectively.

The other companies joining AIM in April 1997 included Petra Diamonds,

HARVEY NASH (HVN)	
Price (p)	73.5
Market cap £m	55.1
Historical yield	5.6%
Prospective yield	5.9%

which was capitalised at £8.75m – four of the 14 companies were worth less than £10m. The diamonds miner has grown to become a constituent of the FTSE 250 index, with a valuation of around £680m.

In those days, Harvey Nash would have been perceived as too large to join AIM. Nowadays, it is thought of as too small for a premium listing. Management feels that it will be easier to make acquisitions on AIM and there will also be tax benefits for investors. Shareholders will be asked to approve the move on 29 June.

Harvey Nash has restructured over the past year or so and unprofitable branches have been closed. The focus is on technology recruitment, with booming demand for digital executive placements and the company has the finance to do this.

In the year to January 2017, gross profit was 8% ahead at £97.9m and underlying pre-tax profit was ahead of expectations at £8.6m. The UK business reported a lower operating profit, while bad debts hit the US business, but that was made up for by the better performance in Benelux and Scandinavia.

Panmure Gordon raised its 2017-18 profit forecast from £8.6m to £9.1m, putting the shares on eight times prospective earnings. The plan is to focus on key markets and geographies and enhance these strong market positions with acquisitions.

Dividend news

Growth at **AB Dynamics** has been steady as it gets ready to move into its new purpose-built facility later this year. Demand for autonomous vehicle testing is strong and interim revenues were 9% higher at £11m, with pre-tax profit 9% ahead at £2.5m. Capacity is currently limited but automotive R&D spending is growing so there will be plenty of demand when the additional capacity is available. The interim dividend was raised by 10% to 1.331p a share. Net cash was £14.8m at the end of February 2017, although further investment in the new facility will reduce that figure by the end of August 2017.

Self-storage sites operator and manager **Lok'nStore** increased its interim dividend by 12% to 3p a share as cash generation remains strong thanks to higher prices and occupancy rates. The total dividend for the year is expected to rise by at least 11% to 10p a share. New sites are being opened this year, with further sites being negotiated and that will increase available space by 30% but it will take time for the full benefits to show through. There should also be an improving performance from the document storage operations. The NAV is expected to reach 404p a share at the end of the financial year.

Spending control software provider **Proactis** continues to progress via a combination of organic and acquisitive growth. In the six months to January 2017, revenues were 36% higher at £11.8m, with organic growth of 13%. Full-year profit is expected to improve from £3.1m to £5.4m and the dividend is forecast to rise to 1.4p a share. The supplier commerce concept is still being tweaked with the initial three users. This has still to kick in as a major revenue generator and the acquisition of tender information provider Millstream should help.

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expert views

Expert view: The broker

Bilby builds on experience and quality

By Mike Jeremy

Bilby* is a specialist social housing services and building company serving local authorities, housing associations and domestic customers in London and the Southeast. The Group comprises four companies: P&R Installation Company Ltd, Purdy Contracts Ltd, Spokemead Maintenance Ltd, and DCB Ltd.

The range of services provided includes gas heating installation, maintenance of plumbing and electrical systems, and building repair. Demand for social housing is rising, whilst legislation stipulates that properties owned by local authorities or housing associations must be well maintained. This combines to create a positive environment for Bilby's services and the basis for a strong, transparent recurring revenue stream. The Group currently provides services to over 300,000 properties across its target market, with contracts at local authorities and housing associations on a multiple, standalone or long-term basis.

Bilby is known for quality of service and operational efficiency. The group originated in 1977, founded by Phil Copolo, as a gas heating and installation provider, originally incorporated as P&R Installation, and subsequently expanded over a period of 40 years. Phil continues to take an active role in the management of P&R and is a qualified gas engineer by trade. The group is located in London and the Southeast, with an additional presence in Colchester. This local focus amounts to an advantage in scheduling works and maintenance or responding to more urgent situations. Bilby also has an active 'buy-and-build' strategy.

Markets

Bilby's market area includes a total of 1.332 million social housing units, of which 60% are located in the 33 London Boroughs. Bilby is active in 14 of these

boroughs, including six of the ten with the largest social housing inventory (led by Southwark). London has a waiting list of some 800,000 for social housing provision and a shortfall of 42,000 dwellings required to meet near-term demand.

Demand for repair and maintenance is backed by powerful, specific legislation. The installation and maintenance of gas appliances requires a qualified 'Gas Safe' registered technician (Gas Safe replaced 'CORGI', the gas registration body, in April 2009). Second, the Government Decent Homes Standard, monitored by the Department for Communities and Local Government (DCLG), sets minimum standards for housing and accommodation among landlords, local authorities and housing associations. Finally, the 'Right to Repair' scheme gives council tenants the right to request repairs costing up to £250 on a timely basis; typical requests include unsafe electrical fittings, blocked flues or plumbing problems.

Across its four companies Bilby has some 420 employees. P&R, based in Sidcup and Colchester specialises in gas heating

local authority-owned housing. DCB, based in Sittingbourne, acquired in 2016 for a maximum consideration of £4m, specialises in building refits to local authorities in Kent, Sussex, Essex and London.

Financials

Bilby reported Interim FY17 (September 2016) revenue of £30.1m, EBITDA of £1.35m (adjusted) and PBT of £1.1m, inclusive of contributions from DCB and Spokemead. The company paid a dividend of 0.25p. Bilby highlighted a significant contract for the provision of gas services for Shepway and East Kent Housing, an 'arm's length management organisation' (ALMO) acting for Canterbury City Council, Dover District Council, Shepway District Council and Thanet District Council in the management of a total of 17,000 homes, noting that this represents "the largest gas services contract awarded in Kent".

In its April trading update, the company reported that it "continues to make excellent progress by both winning significant new contracts and extending the scope and size of existing contracts".

Bilby provides services to over 300,000 properties

installation and building maintenance, and services over 100,000 properties. Purdy, based in Waltham Abbey, acquired by Bilby in 2015 for £8.1m, conducts electrical, mechanical and property maintenance services for over 150,000 properties (including estates and tower blocks, street properties, offices, schools and colleges) in Essex, Hertfordshire and Suffolk. Spokemead, based in Hemel Hempstead, was acquired by Bilby in 2016 for a maximum consideration of £8.7m, and specialises in electrical installation, repair and maintenance for

In our view Bilby is currently under-valued compared with its quoted UK peers, on a March 2018 estimated PE of 5.7x representing a 31% discount to its peers, and offering a dividend yield of 5.8%.

*Northland Capital Partners acts as nominated adviser and broker to Bilby



MIKE JEREMY is a director of research at Northland Capital Partners.

expert views

Expert view: The lawyer

Compensation for investors from the company that says: "Every little helps"

By Simon Charles

As participants in the AIM market, we are all concerned to ensure that matters that cross our desks are handled with the utmost probity.

Most of us operating in that market are subject to some form of regulatory supervision and accountability (whether from the Institute of Chartered Accountants in England & Wales – ICAEW, the Financial Conduct Authority – FCA, or the Solicitors Regulation Authority) of which we should be mindful in each and every matter. We are concerned to get things right

Most of us operating in AIM are subject to some form of regulatory supervision and accountability

and to remain compliant.

In addition to regulatory oversight, we are all subject to the provisions of the law. When advising directors as to their duties, for example on a corporate fundraising from investors, or on their duties of disclosure to the market, whether under the AIM Rules or the Market Abuse Regulation or otherwise, one of the issues we raise is the provisions of section 384 of the Financial Services and Markets Act 2000 (as amended) (FSMA).

The following example of events in respect of a significant premium-listed, Main Market company – Tesco Plc – shows that the law exists for a reason and that it is applied. This provision has bite, as seen below.

Market abuse

Affected shareholders and bondholders in supermarkets operator Tesco Plc have been the beneficiaries of an order made under section 384 of FSMA for their entitlement to receive a payment of compensation as a result of market abuse committed by Tesco Plc.

Certain accounting and financial information provided to Tesco Plc by its subsidiary, Tesco Stores Limited, was defective and incomplete to a significant extent such that it comprised false accounting.

Tesco Plc, the listed parent company, issued a trading statement in August 2014 based to an extent on that defective and incomplete information.

The FCA concluded that Tesco Stores Limited had committed market abuse in issuing the trading statement. The contents of the trading statement were deemed to have given a false or misleading impression as to the value of Tesco Plc's shares and publicly traded bonds issued by Tesco Plc.

Compensation

A scheme has been established in respect of this case which shall compensate claimant investors who bought Tesco Plc shares and/or bonds

on or after the date of the trading statement and who still held those shares and/or bonds when the trading statement was subsequently amended and updated with the correct (non-abusive) information.

Successful claimants shall be entitled to receive an amount equal to the incorrectly inflated amount for each share or bond. This amount is to be arrived at following the input of an independent expert appointed by the FCA.

Given Tesco Plc's conduct and cooperation, Tesco Stores Limited's admission of false accounting and the restitutionary nature of the order, the FCA did not impose or seek to impose a fine against Tesco Plc.

SFO fine

Readers may recall the not insubstantial matter of the £128,992,500 fine agreed to be paid by Tesco Stores Limited to the Serious Fraud Office in return for its entry into a deferred prosecution agreement.

This only relates to the potential criminal liability of Tesco Stores Limited for the false accounting. It does not affect in any way as a matter of law the liability position of the parent company, Tesco Plc, or any of its employees (or those of Tesco Stores Limited).

Still, every little helps.



SIMON CHARLES is Partner & Head of Equity Capital Markets at Marriott Harrison LLP.



feature

Comparing AIM and the Hong Kong Stock Exchange

Moore Stephens has analysed the potential for AIM companies to improve their valuations by gaining a dual listing on the Hong Kong Stock Exchange but in reality it is unlikely to be a realistic choice for most AIM companies.

Accountant Moore Stephens has published research that compares AIM with the Hong Kong Stock Exchange (HKSE). This may seem strange because the HKSE is a regulated market like the Main Market in London. However, Moore Stephens believes that there is a perceived gap for companies that are quoted in the UK, when they are larger than a typical AIM company but not large enough to benefit from being fully listed.

This is defined by Moore Stephens as companies that have a market value of between \$100m and \$500m, when they are slightly too small to be a constituent of the FTSE 250 index.

It is difficult to come to a conclusion based on the companies that have been quoted on both AIM and the HKSE because there are a limited number. Asian Citrus has done badly since its HKSE listing but that is because of its own internal problems.

West China Cement decided to switch from AIM to the HKSE, rather than move to the Main Market in London. The cement manufacturer was doing well at that time but it has run into difficulties since. Again, that is more to do with its market than its stock market.

Market comparisons

At the end of 2016, there were 1,964 companies quoted on the HKSE, roughly double the number on AIM, with property, construction, financials, personal goods and technology sectors having the most companies. Unsurprisingly the companies tend to be much larger than those on AIM.

The HKSE has an enterprise value/ EBITDA of 18.1 times, which is not

significantly higher than AIM's multiple of 16.

In terms of sectors, HKSE outperforms AIM in mining, financial services, media, support services, property and investment services. In some, of these sectors the outperformance is particularly significant. AIM food, pharma and software sectors have higher average valuations than their peers on the HKSE.

Some large companies choose to

can be easy for a company to fail to gain investor attention on AIM and it might get even less attention on the HKSE. Many of the companies that do not attract much attention from investors on AIM are ones that are based overseas. The London Stock Exchange tried to attract international companies to the junior market but many have come and gone because there was little trading in their shares and it was difficult to raise additional capital to grow the business.

A dual listing is no cure for a lacklustre or poorly performing company

remain on AIM, such as online fashion retailer ASOS, and there are companies that are far too small to benefit from a second listing. There are 312 companies on AIM valued at between £50m and £500m – roughly one-third of the market. Many of those will be predominantly UK-focused.

Challenges

Moore Stephens believes that its analysis indicates that some AIM companies could benefit from a dual listing on the HKSE and might achieve a higher valuation. However, in order to interest investors there will need to be a local presence or at least a significant international business.

On top of this, there is the additional cost of being quoted on two different markets with different rule books. There is additional cost in complying with both sets of rules as well as the extra time that would have to be spent on investor relations in both regions.

Possibly, even more importantly, it

Strongly performing companies are likely to build up a high valuation on AIM. Mixer drinks supplier Fevertree Drinks is an example of a company that would have initially fitted into the range that Moore Stephens is talking about. It was valued at £190m when it joined AIM in 2014. Less than three years later the market capitalisation is £1.7bn and it is one of the most traded shares on AIM.

This is an unusual example but the point is that if a company performs well it can attract investor attention and generate significant liquidity and a high valuation. A dual listing is no cure for a lacklustre or poorly performing company.

There are arguments for gaining a listing on Nasdaq or other markets to obtain a higher rating and raise more cash, particularly in pharma. The company needs to be a significant size to do that because of the extra costs. There may be companies that could benefit in the same way from a HKSE listing but they need to be sure there really is demand from investors.


statistics

Market Performance, Indices and Statistics

AIM SECTOR INFORMATION		
SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Consumer services	18.7	10.6
Financials	15.6	17.2
Industrials	14.5	15.9
Healthcare	12.9	9.4
Technology	11.2	12.4
Consumer goods	9.2	5.9
Basic materials	8.1	15.1
Oil & gas	7.8	11.2
Telecoms	1.2	1.1
Utilities	0.6	1.2

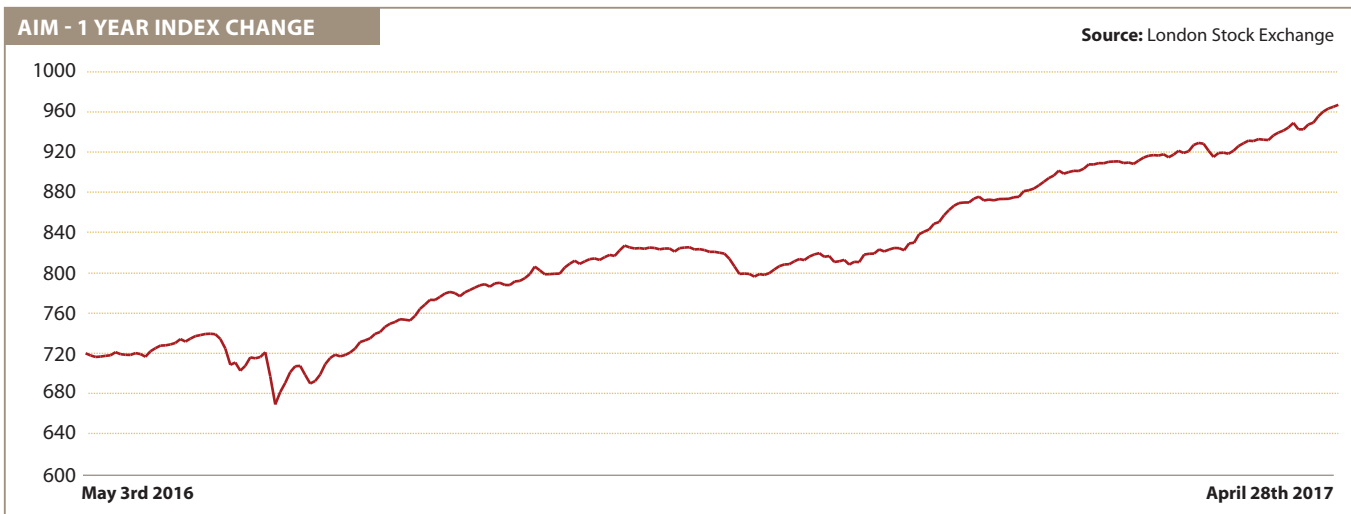
KEY AIM STATISTICS	
Total number of AIM	967
Number of nominated advisers	33
Number of market makers	48
Total market cap for all AIM	£88.98bn
Total of new money raised	£100.8bn
Total raised by new issues	£41.9bn
Total raised by secondary issues	£58.5bn
Share turnover value (2017)	£14.9bn
Number of bargains (2017)	2.64m
Shares traded (2017)	301.6bn
Transfers to the official list	182

FTSE INDICES		
INDEX	PRICE	ONE-YEAR CHANGES % CHANGE
FTSE AIM All-Share	963.72	+32.4
FTSE AIM 50	5420.2	+37
FTSE AIM 100	4747.23	+40
FTSE Fledgling	9798.62	+26.3
FTSE Small Cap	5528.63	+20.5
FTSE All-Share	3962.49	+15.8
FTSE 100	7203.94	+15.4

COMPANIES BY MARKET CAP	
MARKET CAP	NO.
Under £5m	167
£5m-£10m	107
£10m-£25m	198
£25m-£50m	150
£50m-£100m	140
£100m-£250m	121
£250m+	84

TOP 5 RISERS OVER 30 DAYS			
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
PhotonStar LED	Cleantech	1.7	+183.3
Modern Water	Cleantech	17.12	+163.5
Biome Technologies	Cleantech	237.5	+141.1
Pipehawk	Industrial	5.75	+119.1
Feedback	Healthcare	3.12	+115.5

TOP 5 FALLERS OVER 30 DAYS			
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Ncondezi Energy Ltd	Mining	3.38	-57.8
Synaigen	Healthcare	12.75	-56.8
Taihua	Healthcare	1.25	-53.3
Mayan Energy Ltd	Oil and gas	1.7	-46.9
Concha	Media	0.18	-46.2



Data: Hubinvest Please note - All share prices are the closing prices on the 30th April 2017, and we cannot accept responsibility for their accuracy.

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

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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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