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AIM JOURNAL

Sherborne builds stake in F&C

AIM-quoted investment company Sherborne Investors (Guernsey) is building up a stake in F&C Asset Management. The investment is made through the investment partnership SIGA LP, which owns or has an interest in 14.6% of F&C.

Sherborne joined AIM in March and raised £105m at 100p a share prior to its quotation. The strategy has always been to select a target company and invest in it through SIGA LP. The prospectus says that an investment would be sought where there is a "significant divergence between actual and potential operating profitability and return on capital and where the share price reflects an expectation of continuing underperformance". Sherborne may also seek board representation in order to help improve performance.

So far, £40.25m has been invested in F&C shares. Sherborne does say that if it can't build up a suitably sizeable stake in F&C at a realistic price then it may sell and move on to another investment.

Sherborne's management has invested in six companies which it believed required a turnaround strategy. Three of these investments were sold because the share price rose to a level where other purchases were not justified. In the other three cases, Sherborne representatives joined the boards and helped in the improved performance of telecoms firm Spectris, chemicals supplier Elementis and incentives firm 4imprint. These turnarounds were headed by Edward Bramson, who is a managing director of the investment manager of Sherborne.

Thai companies keen on Tokyo AIM

Companies in Thailand are keen to gain access to funds in Japan by joining Tokyo AIM, according to the *Bangkok Post*. The interest from Thailand is good news for the new junior market which has still to attract a company after the millions of pounds of investment put into it by the London and Tokyo Stock Exchanges.

A recent Thai business delegation to Japan asked Japan's Ministry of International Trade and Industry to support Thai companies that want to gain a quotation on Tokyo AIM in order to fund their investments in Japan.

Thai companies believe that there are business opportunities in Japan because of the Japan-Thailand Economic Partnership Agreement (JTEPA), which promotes free trade.

The first J-Nomads for Tokyo AIM were appointed in June 2009. The Tokyo AIM website (www.Tokyo-aim.com) reports that at present there are no companies quoted on the Japanese junior market.

The London Stock Exchange said in its accounts that it had invested £6.1m in Tokyo AIM in the year to March 2010.

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general news

AIM bosses' pay rises outstrip their peers'

Directors of AIM-quoted companies have received inflation-beating average salary increases of 6.1% in the past year, according to employment research services provider Incomes Data Services. For the first time the average salary of AIM chief executives has risen above £200,000.

The average increase of the salaries of AIM bosses is 5.7% and if bonuses and other incentives are taken into account then the average earnings are £289,000. Finance directors received slightly lower average increases but other directors received an average increase of 7.2%. AIM finance directors receive an average salary of just over £142,000 while other AIM executive directors receive an average of nearly £154,000.

Average bonus payments for AIM directors have been falling but the rise in salaries has offset that decline. The average bonus fell from £53,341 to £49,590.

The IDS figures use data that is taken from annual reports with year-end dates of between February 2009 and April 2010.

AIM directors received higher pay increases than their counterparts that run FTSE Fledgling and FTSE SmallCap constituents. Their bosses enjoyed an average salary increase of 3.7% and 3% respectively.

It should be remembered that AIM includes companies that are much larger than those included in the FTSE SmallCap index, where market values go up to around £400m. Another thing that could affect the average pay increases for AIM bosses is that the average size of an AIM company has risen. At the end of 2008 the average size of an AIM company was £24.3m and that has increased to £48.3m. That is partly because of a rise in share prices but it is also attributable to smaller companies leaving AIM.

iEnergizer plans float

Indian call centre and back office support services provider iEnergizer intends to join AIM in September in a flotation that is expected to value it at £174m. The company plans to raise £37m of new money at 116p a share.

Chief executive and founder Anil Aggarwal will have his stake in Guernsey-registered iEnergizer diluted to 78.7% after the placing. The company's main customers are in the financial, entertainment and telecoms sectors and they are serviced through six sites in India and one in the US.

So far, growth has been organic but the quotation will help iEnergizer to finance acquisitions, possibly even in Europe. The Indian business process outsourcing market is growing rapidly as large companies seek to reduce their costs by outsourcing back-office work.

Arden is nominated adviser and broker to iEnergizer, which is expected to start trading on AIM on 14 September.

BPC hit by oil exploration freeze in the Bahamas

Bahamas-focused oil and gas explorer Bahamas Petroleum Company has been hit by the political fallout from BP's problems with the blowout at its Macondo prospect in the Gulf of Mexico. The Bahamas is concerned about the environmental effect of oil exploration and it has put a stop to it for the time being. This has effectively frozen BPC's five new licence applications, which were submitted jointly with Norway-based Statoil.

The Bahamas government has decided to suspend consideration of all applications for oil exploration and drilling in its waters. All existing oil licences will be reviewed. The Bahamas wants to safeguard the marine environment. Tourism is important to the Bahamas so any significant oil spills or leaks could be disastrous. The plan is to put in place environmental protocols for oil exploration before any applications are considered.

At one point the BPC share price almost halved on this news but it settled at around one-quarter lower at 3p. BPC says that it will continue processing seismic data on its existing granted licences. A seismic line survey 194km long was undertaken in June 2010 over the company's southern licences, which lie adjacent to Cuban waters. This helped to confirm the geological model for the area and make the company even more convinced that there is oil beneath the sea.

BPC hopes that by the time it is ready to drill, the appropriate controls will have been put in place.

A flotation on the Bahamas International Securities Exchange was planned but it is unlikely to take place until the future is clearer.

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advisers

Astaire moves ahead on break-up proposals

Astaire Group says that it is making progress in the possible sales of AIM-focused broker Astaire Securities and private client broker Rowan Dartington. It has also set the date for the general meeting requisitioned by rebel shareholders.

There are two preferred potential buyers of Astaire Securities and detailed negotiations have commenced. There is still a long way to go before the broker can be sold. Even if the negotiations come to a successful conclusion then the deal will still have to be agreed by the FSA. Any buyer will be required to have sufficient regulatory capital, for example. A lack of regulatory capital was why Astaire's bid for Hoodless Brennan fell through.

The requisitioned general meeting will be held on 16 September. The meeting has been requisitioned by former Astaire boss Andrew Monk and former Ruegg owner Brett Miller.

It is easy to see why Miller is disgruntled. In July 2009, Astaire paid for small company adviser Ruegg with 6m of its shares at a price of 5.25p each. That is equivalent to just under 3% of Astaire. The Astaire share price is currently 0.65p, which values the broking group at £1.33m and the shares issued to buy Ruegg at £39,000.

There are three proposed resolutions. The first says that Astaire should return cash "in excess of regulatory and working capital requirements to shareholders". The net asset value of Astaire was £14.3m at the end of 2009 and there was still net cash of £7.81m. That cash figure is probably lower now, though.

The second resolution is that Astaire should sell its businesses or solicit offers for itself. Astaire is effectively doing this.

The third resolution is to remove the finance director Chris Roberts, who was reappointed finance director on 6 November 2009 having stepped down at the end of 2008 after a decade in the job.

Astaire advises shareholders to vote against the resolutions. It also plans to ask them to agree to increase the authorised share capital of the company by two-fifths to £700,000 and allow directors to allot the shares that are unissued if required.

Evolve Capital, which owns 53.6% of Astaire Group, will hold the key to the meeting. If it supports the Astaire board then the rebel resolutions will be defeated.

However, Evolve has its own problems. A general meeting has been requisitioned at Evolve in order to remove Oliver Vaughan from the board. Former Astaire corporate finance executive Olly Cairns and GHC Nominees Ltd are behind the requisition. They own a total of 5.79% of Evolve, although that is before any shares are issued through the recently closed open offer, which raised £518,000. A reconvened general meeting to agree to the issue of the shares will be held on 8 September and that would dilute the rebels' shareholding by more than one-third.

ADVISER CHANGES - AUGUST 2010

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
Ormonde Mining	Fairfax IS/Davy	Davy	Davy	Davy	03/08/2010
Southern Bear	Seymour Pierce	Astaire	Grant Thornton	Grant Thornton	04/08/2010
Managed Support Services	Merchant Securities/Cenkos	Cenkos	Cenkos	Cenkos	05/08/2010
Corac	Cenkos	FinnCap	Cenkos	FinnCap	06/08/2010
Corero	FinnCap	Merchant Securities	FinnCap	Merchant Securities	09/08/2010
Straight	Cenkos	Panmure Gordon	Cenkos	Panmure Gordon	10/08/2010
Univision Engineering	SVS/Allenby	Allenby	Allenby	Allenby	11/08/2010
Clarkson Hill Group	Cairn	Astaire	Cairn	Astaire	12/08/2010
Eruma	Cairn	FinnCap	Cairn	FinnCap	13/08/2010
Sirius Real Estate	KBC Peel Hunt	JPMorgan Cazenove	KBC Peel Hunt	JPMorgan Cazenove	16/08/2010
Burford Capital	Execution Noble/Fox-Pitt, Kelton	Fox Pitt, Kelton	Fox Pitt, Kelton	Fox Pitt, Kelton	18/08/2010
Concurrent Technologies	Cenkos	Brewin Dolphin	Cenkos	Brewin Dolphin	18/08/2010
Interbulk Group	Arbuthnot	Arden	Arbuthnot	Astaire	18/08/2010
Serabi Mining	Hybridan	Beaumont Cornish	Beaumont Cornish	Beaumont Cornish	18/08/2010
Igas Energy	RBS Hoare Govett	Cenkos	RBS Hoare Govett	Cenkos	19/08/2010
Pure Wafer	WH Ireland	Altium	WH Ireland	Altium	23/08/2010
KBC Advanced Technologies	Cenkos	Arbuthnot	Cenkos	Arbuthnot	24/08/2010
European Nickel	Mirabaud/Canaccord	Canaccord	Canaccord	Canaccord	26/08/2010
Westminster Group	XCAP	Seymour Pierce	Zeus Capital	Seymour Pierce	27/08/2010
Green Dragon Gas	CLSA/Evolution	GMP Europe/Evolution	Smith & Williamson	Smith & Williamson	31/08/2010
TEG Group	Ambrian	Canaccord	Ambrian	Canaccord	31/08/2010

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company news

Faroe's attractions extend beyond bid speculation

Oil and gas explorer *www.faroe-petroleum.co.uk*

The outcome of the bid battle for fully listed oil and gas company Dana Petroleum could be important to the future of **Faroe Petroleum**. Dana owns 27.5% of Faroe and if the bidder is successful it will have to decide what to do with the stake, which is currently worth nearly £85m.

The Korea National Oil Corporation (KNOC) has offered 1,800p a share in cash for Dana, which values the company, including its convertible bonds, at approximately £1.87bn. KNOC has already received letters of intent representing 48.62% of Dana so it is well on the way to success. However, Dana says that, despite the premium to the previous market price, the offer is too low.

Given KNOC's strong position it appears most likely that the bid for Dana will succeed. KNOC could decide to further tidy up its holdings and bid for Faroe or it may want to offload the stake to another bidder.

Dana's stake in Faroe is currently worth nearly £85m

The Faroe share price has risen by nearly two-fifths since just before KNOC confirmed its interest in bidding for Dana. However, that rise was down to the Maria oil discovery in the North Sea, where Faroe has a 30% stake. Faroe believes that there could be oil in place of 250 to 500 mmbbl, which is higher than initially expected. Panmure Gordon believes that the discovery could add at least 30p a share to Faroe's asset value, taking it above 140p a share.

FAROE PETROLEUM (FPM)			176.75p
12 MONTH CHANGE %	+129.4	MARKET CAP £M	308.5

Drilling has also started at the Anne Marie prospect, where Faroe has a 12.5% stake. A rights issue at 100p a share raised £69.8m in May, so Faroe has plenty of cash to spend on exploration and development.

Faroe has reached an agreement to double its interest in Norwegian licence PL440S, where the Clapton prospect is expected to be drilled in late 2011 or early 2012, to 40%. Faroe will also become the operator.

All this positive news shows that Faroe has plenty of upside potential from its operations with the added possibility of bid developments.

Stratic agrees to EnQuest all-share bid

Oil and gas *www.straticenergy.com*

Fully listed oil and gas explorer and producer EnQuest is buying Canada-based **Stratic Energy Corporation** in an all-share deal.

EnQuest is offering 0.089626 of one of its shares for each Stratic share. At the time of the announcement this valued Stratic at 10.5p a share, or £28.6m in total. Including debt and convertibles, Stratic is valued at £83.1m. EnQuest plans to repay the convertibles after the takeover is completed. EnQuest had net cash of $76.4m at the end of June 2010.

Stratic, which is also quoted on the Toronto Venture Exchange, had hoped to generate cash from selling its stake in the Crawford field in the North Sea but that was scuppered by the operator's inability to float in July. Stratic would have found it difficult to meet its financial obligations over the coming year and EnQuest has the financial muscle to develop Stratic's assets.

STRATIC ENERGY (SE.)			9.5p
12 MONTH CHANGE %	-55.7	MARKET CAP £M	25.9

EnQuest was demerged from oil services group Petrofac on 6 April 2010. Petrofac shareholders received one EnQuest share for each Petrofac share they owned. EnQuest focuses on oil and gas reserves in the UK Continental Shelf. At the time of the demerger Lundin injected its UK North Sea assets into the company. They included stakes in more mature fields such as Thistle.

Stratic lost $3m in the second quarter of 2010 but this was offset by a $3.2m gain on the sale of its Italian subsidiary. Although the North Sea is Stratic's focus, it also has gas assets in Turkey and exploration assets in Slovenia and Morocco.

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Monitise gets closer to Visa as revenues more than double

Mobile banking technology *www.monitisegroup.com*

Mobile banking technology services provider **Monitise** more than doubled its revenues in the year to June 2010 and the rate of growth is set to be faster this year. People are increasingly using smartphones to pay bills and carry out financial transactions and Monitise is in a good position to benefit.

Monitise is becoming even closer to Visa and this should ensure strong growth in the next few years. Monitise has agreed a one-year extension of its five-year global alliance agreement with Visa, taking it to 2015. There is also an increase in the minimum fee commitment to $16m. Visa director Elizabeth Buse has joined the Monitise board. Visa invested another £6.6m in July's cash raising and that took its stake in Monitise to 14.4%.

Monitise raised a total of £32.4m (£31m net) at 20.75p a share just after the end of the financial year. The cash mainly came from institutions but Hong Kong-based investment company First Eastern also invested £2.1m.

Users are growing at around 100,000 a month

Revenues grew from £2.66m to £6.02m in 2009-10, with the growth coming from increasing transactional revenues. Most of last year's growth came in the second half. There are 2m registered customers and the number is growing at around 100,000 a month. Visa's launch of a smartphone application should help to add more numbers.

The reported loss increased from £13.1m to £17m, even though there was a £956,000 notional gain on the purchase of the other 50% of Monilink (now Monitise Europe) from its partner.

MONITISE (MONI)			21.75p
12 MONTH CHANGE %	+26.1	MARKET CAP £M	150.7

The cash outflow from operations was up from £11.4m to £13.9m. There was cash of £13.2m at the end of June 2010 and this has increased to £42m. The cash should enable Monitise to reach breakeven, add new products and grow in existing core markets.

The North American operations are close to breakeven and the cash outflow from European operations should end by the beginning of 2011. However, Monitise is still investing in its technology and Piper Jaffray does not expect the group to be profitable until 2012-13 when revenues of £44.5m are forecast.

Cash generation still a problem for RCG

Biomatics and RFID technology *www.rcg.tv*

Biomatics and RFID technology supplier **RCG** continues to grow its revenues but it is finding it tough to maintain margins and collect cash.

Revenues rose by 12% to HK$1.44bn in the six months to June 2010 but a change in the mix of revenues and the need to be price competitive led to a decline in gross margin. Sales to Greater China declined but there was growth in the Middle East and Southeast Asia. Pre-tax profit was flat at HK$376m.

Cash generation remains a concern, with governments slow in paying for work and RCG having to extend payment terms to distributors. RCG, in common with many companies whose core customer base is in China, has never consistently converted all of its reported profit into cash in the period that the profit is made. There was some progress made but in the past couple of years it has got much worse as the global economic recession made trading tougher for RCG and its partners.

RCG HOLDINGS (RCG)			41.75p
12 MONTH CHANGE %	-36.7	MARKET CAP £M	121.3

Cash conversion of profit improved slightly in the latest figures but it remains below 10% in the first half of 2010. That is not much to shout about. Net debt was HK$29.3m (£2.5m) at the end of June 2010.

In July, RCG raised £2.11m (HK$25m) from a placing with two institutions at 42.16p a share. Shareholders voted against a proposed share subdivision just before the figures were published.

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company news

Marwyn buys Breedon assets and seeks more aggregates acquisitions

Building materials *www.marwynmaterials.com*

Marwyn Materials is buying the Breedon aggregates businesses that were formerly owned by fully listed Ennstone before it went bust. Marwyn Materials is paying £2.25m in cash and taking on debt.

Marwyn Materials, which is changing its name to Breedon Aggregates, has raised £50m (£44.25m after the expenses of the deal) at 12p a share in order to finance the acquisition and provide working capital. Bank facilities of £94.5m have been negotiated for Breedon. Marwyn Value Investors, which floated the shell, will still own 26.9% of Marwyn Materials after the deal and fundraising.

This is not the first time that Marwyn Materials has tried to buy these businesses. It joined AIM on 12 June 2008, when it raised £13.6m at 10p a share. A few months later it approached Ennstone about a potential bid but the two sides could not agree terms.

Marwyn Materials, which is changing its name to Breedon Aggregates, has raised £50m

Marwyn Materials is run by former Aggregate Industries boss Peter Tom. Swiss building materials group Holcim acquired Aggregate Industries for £1.8bn in 2005. The company's chief executive, Simon Vivian, is a former boss of Mowlem and before that he ran Hanson's building materials business. The two men should have the experience to get the most out of the assets being acquired.

Breedon owns 29 quarries, 19 asphalt plants and 27 concrete plants in England and Scotland. The business has 181m tonnes of mineral reserves and resources and that should last for 50 years at the current levels of output.

MARWYN MATERIALS (MMAT/BREE)			15.5p
12 MONTH CHANGE %	+3.3	MARKET CAP £M	21.1

Marwyn Materials is not taking on the Enneurope part of Ennstone which owns the Polish quarry assets. These are expected to be sold separately. However, if that does not happen, there is a put and call option that could require Marwyn Materials to buy these assets – subject to Polish regulatory clearance – for £5.5m.

The acquisition has been made near the low point in the cycle for the aggregates sector. Marwyn Materials is keen to make more acquisitions and it believes that there will be plenty of opportunities as larger building materials businesses look to sell assets.

Pan African generates attractive dividend

Mining *www.panafricanresources.com*

Pan African Resources has a cash generative gold mine which can finance the company's expansion and also enables it to pay a dividend.

The Barberton gold mine is generating all of Pan African's revenues at the moment. They increased by 29% to £68.5m in the year to June 2010. Gold production edged up by 3% to 97,483 ounces and the grade remained high at 10.61g/tonne. Management believes that the grade should be maintained. Pre-tax profit improved from £16.3m to £22.2m but that was mainly attributable to the £4.7m reduction in the impairment charge. More importantly, Pan African generated cash of £10.6m during the period, taking the cash figure to £12.8m at the end of June 2010. A dividend of 0.3723p a share will use up £5.26m of that cash.

PAN AFRICAN RESOURCES (PAF)			7.1p
12 MONTH CHANGE %	+42	MARKET CAP £M	100.1

Pan African, which is also listed on the Johannesburg Stock Exchange, took 100% ownership of the Barberton mine during the period so it will keep all of the profit from now on. The cash in the bank and being generated from Barberton will finance the development of the Phoenix platinum project. Production of platinum group metals from the processing of chrome tailings could commence in the second half of 2011. Pan African also has an early-stage gold project in Mozambique.

Shanduka Gold has taken a 26% stake in Pan African and Cyril Ramaphosa has become non-executive chairman.

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Johnson Service Group rebuilds its dividends

Textile services and facilities management *www.johnsonplc.com*

Dividend

Johnson Service Group increased its interim dividend from 0.25p to 0.27p a share. JSG returned to paying dividends at the interim stage last year after a two-year gap. Last year's total dividend was 0.75p a share and it should improve to around 0.8p a share for 2010. That dividend is still nearly five times covered by forecast earnings per share for this year. Net debt is £64.6m and, even after a dividend costing £670,000, could fall to £63.5m at the end of 2010. The yield is nearly 5% and should be attractive to investors.

Business

Executive chairman John Talbot has headed up the recovery of the business, which was hit by massive write-downs in 2007. JSG is smaller now but it has stronger foundations and good market positions in its niches.

Although JSG is thought of as a dry-cleaning business it is the textile rental operations that make the most revenues and the bulk of profit. The economy has an effect on this business with Corus a major customer. Cost cutting has improved operating profit, although energy costs may rise again next year.

There was a 3% drop in JSG's revenues to £109.8m in the six months to June 2010 but it still improved its underlying profit from £5.3m to £6.2m, thanks to lower interest charges. That profit figure excludes £6.5m of provisions relating to 28 loss-making dry-cleaning stores being closed or run down.

The cold start to the year knocked £600,000 off dry-cleaning profit.

JOHNSON SERVICE GROUP (JSG)	
Price	16.25p
Market cap £m	40.5
Historical yield	4.6%
Prospective yield	4.9%

The dry-cleaning business has found trading tough but its profit is expected to recover in the second half as the benefits of the restructuring come through.

The facilities management division is the smallest in revenue terms but has plenty of scope to grow. The division is buying eight PFI contracts from the administrator of Jarvis. These contracts generated £10.5m in revenues last year. JSG's facilities management division generated revenues of £36.6m in 2009. The acquisition will be earnings enhancing in the second half of 2010.

Management is comfortable with debt levels and point out that the bank facility, which is in place until April 2013, is £77.5m. Net debt is certainly a lot lower than the £181m figure at the end of February 2008. JSG moved from the full list to AIM in July 2008 and around that time it raised £28m gross from a placing and an open offer at 20p a share. The current share price is below that price.

The business is in a stronger position than two years ago and it has returned to paying dividends. Investec forecasts a rise in full-year profit from £12.2m to £14.1m. That puts the shares on little more than four times prospective earnings. The high borrowings appear to be holding back the share price but they are manageable.

Dividend news

Pawnbroker **H&T** continues to benefit from high gold prices. Gold buying accounts for one-third of H&T's gross profit in the first half of 2010. It has helped to push up pre-tax profit from £8.5m to £14.5m in the six months to June 2010 and that has enabled H&T to pay an interim dividend of 3.5p a share. The dividend includes a 1p a share special dividend. Net debt has been cut from £42.3m to £30.4m over the past six months. Analysts expect full-year profits of at least £23m for 2010. That represents a second-half profit decline but the comparatives are much tougher.

ILX will not pay the dividend it announced in June because it needs the cash to finance the growth of its international business. The e-learning software provider's current bank facilities are not sufficient to cope and ILX is talking to its bank about revised facilities. These facilities should be in place by the end of September. ILX was going to pay an unchanged dividend of 1.5p a share for the year to March 2010. The shares were due to go ex-dividend on 2 September. The dividend could have cost just over £350,000 – depending on how many people would have taken up the scrip alternative. ILX hopes to pay a dividend next year.

Concurrent Technologies increased its interim dividend by 10% to 0.55p a share even though pre-tax profit declined from £1.37m to £1m in the six months to June 2010. The ruggedised, embedded computer products supplier's revenues fell from £6.52m to £5.41m. An expected order from the defence sector will not happen until next year. The order book is higher than last year. There is still £4.55m in the bank so a dividend costing around £400,000 will not be a stretch for Concurrent.

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Sorbic is funded for growth

By DUNCAN HALL

China-based Sorbic International,* which produces sorbates for food preservatives, has raised £3.4m through a placing of 10% convertible loan stock, to fund plant expansion plans which should double production capacity to sales of approx £37.5m a year. The new factory under construction is expected to begin operations in the third quarter of 2011.

Results for the six months to March 2010 reflected a difficult period as revenue fell, and whilst second-half trading will see some recovery, production challenges remain despite good levels of demand. Nevertheless, the group is profitable and cash generative.

Preservatives market

The US food preservatives market is estimated to be worth $7.2bn annually and growing at 3.5% a year. As China consumes barely 2% per head of the manufactured carbonated soft drink equivalent of its American counterparts, the scope for long-term growth in manufactured food and beverages in China is significant.

Similarly, the penetration of Western shopping habits in China has scope to grow, offering another route for manufactured food and beverages to increase market share. Sorbic, through allying itself to FMCG manufacturers, has the ambition to become China's largest domestic manufacturer of sorbic acid and potassium sorbate.

Inner Mongolia

Production capacity growth had always been a feature of Sorbic's expansion strategy. The only change in plan has been the location in Inner Mongolia rather than Shandong. Whilst adjacent premises might have prompted a stronger sharing of central overheads, the local limitations (interruptible power supplies, environmental issues) have become painfully apparent during 2010 trading. In addition, government incentives to locate to Inner Mongolia have proved compelling.

At a price of £2,500/tonne, 15,000 tonnes would generate a revenue of £37.5m

The difficulty at this stage lies in estimating the rate of sales growth for the new production facilities. Previous estimates of 100% utilisation within one year look ambitious in light of the first-half trading difficulties. Nonetheless, existing facilities are planned to operate at around 90% of capacity for 2011 (6,750 tonnes) once operational. Thus were the new plant to run at only 50% capacity in its first year (FY 2012) in the interests of prudence, this would add £8.2m of revenue which at a 30% operating margin, implies a £2.5m operating contribution. With depreciation of £0.5m the net contribution becomes £2m. Any production over that level would contribute proportionately.

The initial plan is to invest in two production lines. If these two plants were to operate near full capacity (7,000 tonnes out of 7,500) as opposed to the £8m which we have factored into 2012 estimates, this could add nearer £19m of revenue. The expectation is that production in the early stages will be more biased towards potassium sorbate.

Price recovery

A price recovery would also help the outcome. Sorbic acid prices are firming – more strongly in international markets than in domestic China – and in general are expected to firm by another 10% to nearer £2500/tonne by 2011/12. Sorbic and potassium sorbate prices tend to run together. The pricing distinction between domestic and overseas markets remains important to the blended outcome.

At a price of £2,500/tonne, 15,000 tonnes production would generate a revenue of £37.5m (2010 revenue estimate is £12.3m). Normalised plant utilisation is around 82%. An operating margin of 30% on the enlarged potential revenue gives EBIT of £11.5m, yet the current market cap is only £11m.

Margins have remained under pressure during the second half of 2010 but input/output pricing equilibrium is expected by 2011/12 and volume growth will help overhead recovery lift margins.

Cumulatively this scenario builds into a strong profit recovery albeit in a commodity area. Thus there is plenty of scope for earnings recovery given that first-half operating margins were 7% as against 31% for the first half of 2009.

Following the interim results we have reduced 2010 estimates to a pre-tax profit of £0.7m (previously £2.3m) and for 2011 we expect only a modest contribution from the new facility, hence a cautious stance. Thus 2012 earnings become the effective reference target. Despite a rising depreciation charge 2011 EPS of 5.2p leave the shares on just over six times earnings.

*Sorbic International is a corporate client of FinnCap

DUNCAN HALL is a research director at FinnCap.

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Patience can pay off for AIM investors

Some of the longer-serving AIM companies have been snapped up by bidders in the past year. They show that long-term investment profits can be made but the path to them is not necessarily smooth and patience is required.

A large number of AIM companies have been taken over in the past couple of years. Some of these acquired companies have been on AIM for a number of years and have built up solid profitable businesses that still have plenty of scope for growth.

However, they have not necessarily had a steady growth record over their time on AIM. It is not realistic to expect young, growth companies to make smooth and consistent progress throughout their lives. There will always be growing pains for all but the lucky few.

Of course, there are many companies that float with high hopes and never achieve their aims. They either stagnate or end up losing a substantial chunk of their value. Nobody is saying that all AIM companies succeed but there are companies which can be written off too soon, especially if their share prices have fallen sharply.

Let's face it, some companies disappoint on a regular basis and it is not surprising to anyone other than their rather naive directors that these share prices remain low.

Other companies have one or two problems or find it takes a lot longer than expected to get their businesses to profitability. Their share prices may be down in the dumps but if they can prove themselves the market price will improve or a bidder will snap them up.

Mastercard bid

Mastercard's £333m bid for DataCash indicates how valuable some AIM companies can be to a bidder and how they are willing to pay a significant premium to the then market price. On top of that, it also provides a lesson in how investors need to be patient and be prepared for some ups and downs over a company's quoted life.

Global cardholder services provider Mastercard is bidding 360p a share for the e-commerce payment services provider. The DataCash share price peaked at the end of 2007 and reached a similar level in 2008 but has never reached the heights of the bid price. In fact, the share price has been well below the bid price for the past two years.

The original DataCash business reversed into AIM-quoted shell Corporate Executive Search International in March 2000 so there will still be a few shareholders who originally invested in the executive search business back in the 1990s.

When the reversal happened the company became known as auxinet but subsequently the name was changed to DataCash. At that time the company also raised £6.6m at the equivalent of 120p a share – the placing price was 12p a share but there was a subsequent 10-for-one consolidation. That means that those investors have trebled their money but they have also been looking at a book loss for many of the intervening years.

In the first few months of trading the company's share price was well above 120p but it started to decline before the end of 2000 and did not consistently trade above 120p again until 2005.

Of course, the DataCash reversal was at the height of the tech boom so the deal price should be seen in that context. DataCash undoubtedly had a ludicrously high rating at the time it joined AIM. The business acquired was valued at £19m. Yet, in its history it had handled £40m of transactions and in the 10 months to December 1999 its turnover was £300,000, with average monthly invoices worth £58,000 in the last quarter. That was still barely £700,000 on an annualised basis.

A combination of organic and acquisition growth helped DataCash make an underlying pre-tax profit of £16.6m on revenues of £36.9m in 2009. That is pretty good progress in a decade. There was £18.6m of cash in the bank at the end of 2009. The bid valuation is not cheap but

> DataCash undoubtedly had a ludicrously high rating at the time it joined AIM

> The impatience of investors meant DataCash languished at a discount to its issue price for years

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feature

Mastercard believes that integrating DataCash into its business will be worthwhile. The bid price equates to a prospective multiple of nearly 25 for 2010.

It is a typical AIM story of a company that excited investors when it joined AIM but fell out of favour. The impatience of investors meant that DataCash languished at a discount to its issue price for a number of years.

Start-ups

Starting up a new business from scratch is never easy. Yet investors can get overexcited and overlook this when they are looking at the potential for the business.

Coffeeheaven joined AIM in December 2001 in order to raise cash to finance its strategy to build up a chain of coffee shops in Poland and the rest of central and eastern Europe. The business was demerged from AIM-quoted in-store bakery operator Bakery Services. Coffeeheaven raised £750,000 at the equivalent of 10p a share but the share price fell below this level for a number of years.

It took time but Coffeeheaven eventually moved into profit and attracted the attention of Whitbread, which bid 24p a share, which is a 140% increase on its flotation price.

The timing of investment is key to whether a profit is made. More recent investors in Coffeeheaven haven't done so well because £3.5m was raised at 30.5p a share in June 2008. Between then and the bid the AIM index fell by around one-third, while the bid price was 21% below the June 2008 placing price – not that the relative outperformance will console anyone who bought the shares at the time.

Italian restaurants operator Carluccio's and IT staff provider FDM have both had up and down times on AIM but they have received bids that were much higher than their flotation prices.

There are other companies that have fallen below their flotation prices but have the potential to surpass these share price levels in the next few years, even without a bid.

Oxford Catalysts

Catalysts and gas-to-liquids technology developer Oxford Catalysts raised £15m (£14m net) at 174p when it joined Aim on 26 April 2006. It immediately went to a premium but the share price is currently less than one-half of the placing price.

The purchase of Velocys at the end of 2008 brought complementary technology to the group and products that are near to commercialisation. At that time, loss-making Oxford Catalysts raised £8.2m net at 125p a share.

Oxford Catalysts has made strong progress in the past two years but that is not reflected in the share price. A demonstration plant at Gussing in Austria using Oxford Catalyst's Fischer-Tropsch-based technology is already performing well. Oxford's partner SGC Energia has been managing the plant, which has been working at full capacity turning biomass into synthetic fuel – it is producing more than four times as much fuel as a conventional system.

The trials continue but the prospects of a commercial order from SGC Energia, which is owned by one of Portugal's richest men, by the beginning of 2011 have improved.

Gas-to-Liquids technology will be demonstrated in Brazil next year by Brazilian national oil company Petrobras.

The quality of Oxford Catalysts' partners indicates that, if the technology passes its trials, revenues should follow.

Cyprotex

Drug discovery services provider Cyprotex's £2.68m cash and shares acquisition of US-based rival Apredica is a good deal and it will provide impetus to help Cyprotex get back above its February 2002 flotation price of 29p. The shares have some way to go because they are trading at less than one-quarter of the float price.

Boston-based Apredica generated revenues of £1.05m in 2009. Apredica has also acquired the Cellular Systems Biology and High Content Toxicology services that were offered by Cellumen Inc. No figures were provided for these Cellumen operations but they are generating revenues.

Cyprotex and Apredica both specialise in pre-clinical services that help drug companies to select the compounds most likely to be developed into a successful drug. The group will be the largest in its niche and there will be cross-selling opportunities.

The deal also adds to the management team. Apredica boss Dr Katya Tsaioun is chief scientific officer of Cyprotex and Apredica's co-founder, Douglas Bates, is chief marketing officer. Both of them took significant stakes in Cyprotex via the deal and then added to their shareholdings when Lloyds sold most of its stake. They own 10.8% and 12.4% respectively.

Cyprotex, which is already profitable and cash generative, intends to pay dividends to shareholders and this could happen as early as next year. That will help to attract investors and push the share price upwards.

Starting a new business from scratch is never easy

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statistics

Market Performance, Indices and Statistics

AIM SECTOR INFORMATION

SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Financials	23.4	24
Oil & gas	20.7	9.2
Basic materials	18.3	13
Industrials	11.4	18.9
Technology	8.2	9.9
Consumer services	7.1	11.9
Health care	4.5	5.4
Consumer goods	3.8	5.2
Telecoms	1.6	1.4
Utilities	1	1.1

KEY AIM STATISTICS

Total number of AIM	1,222
Number of nominated advisers	62
Number of market makers	49
Total market cap for all AIM	£59.03bn
Total of new money raised	£68.71bn
Total raised by new issues	£33.55bn
Total raised by secondary issues	£35.16bn
Share turnover value (2010)	£16.63bn
Number of bargains (2010)	1.96bn
Shares traded (2010)	78.61bn
Transfers to the official list	147

FTSE INDICES

ONE-YEAR CHANGES

INDEX	PRICE	% CHANGE
FTSE AIM All-Share	690.38	+16.4
FTSE AIM 50	2871.12	+17.8
FTSE AIM 100	3161.17	+21.2
FTSE Fledgling	4074.4	+6.8
FTSE Small Cap	2786.69	+3.1
FTSE All-Share	2696.72	+7.0
FTSE 100	5225.22	+6.4

COMPANIES BY MARKET CAP

MARKET CAP	NO.
Under £5m	318
£5m-£10m	186
£10m-£25m	268
£25m-£50m	183
£50m-£100m	120
£100m-£250m	98
£250m+	49

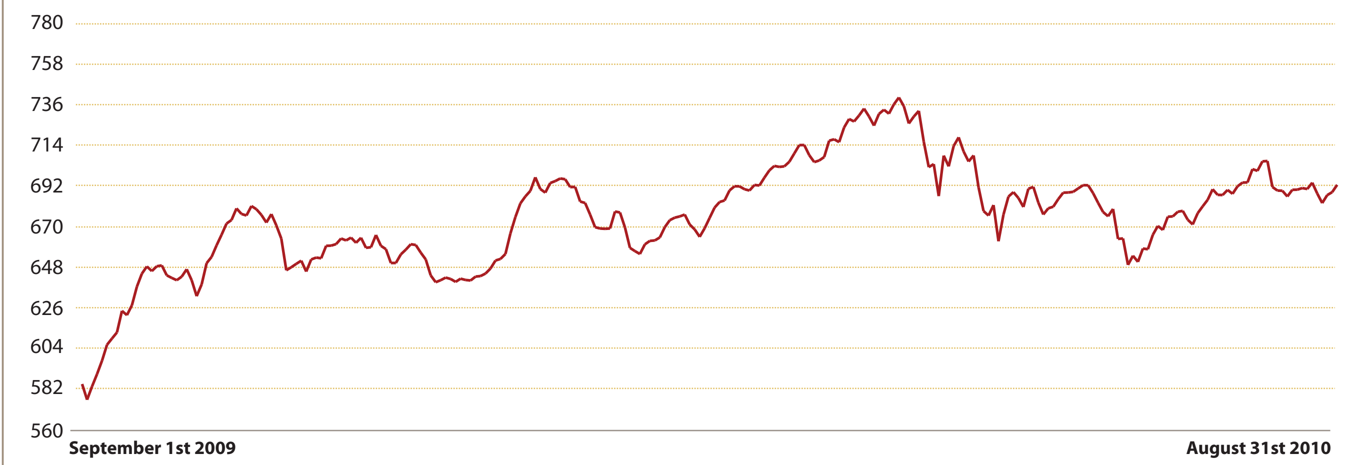
TOP 5 RISERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
CSS Stellar	Shell	3.25	+225
Tertiary Minerals	Mining	5.12	+127.8
Caza Oil & Gas	Oil and gas	18.5	+124.2
Sirius Exploration	Mining	4.62	+117.7
Northacre	Property	134.5	+86.8

TOP 5 FALLERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Alba Mineral Resources	Mining	0.38	-62.5
Weather Lottery	Leisure	1.25	-47.4
Serica Energy	Oil and gas	41	-42.7
Scotgold Resources	Mining	2.88	-39.4
Tanfield	Cleantech	19.75	-35.8

AIM - 1 YEAR INDEX CHANGE



Data: Hubinvest Please note - All share prices are the closing prices on the 31st August 2010, and we cannot accept responsibility for their accuracy.

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finnCap is a client focused institutional broker and corporate advisor, with a strong track record in advising and raising capital, providing research and after-market care for both growing and established smaller companies. The institutional broking team provides a dedicated, bespoke agency broking service to fund managers and private client brokers.

finnCap is already ranked as a top-ten AIM adviser and broker and occupies leading positions in several sectors. In technology it is No. 1 ranked by number of AIM clients, and no 2 in life sciences. finnCap's 45-strong team has established leading positions in the small cap consumer, industrials, insurance, support services, financials and mining sectors. The finnCap research team was shortlisted at the 2009 AIM awards.

finnCap works with over 65 corporate clients and raised just over £90m for clients in 2009. It is a Nominated Adviser (NOMAD) for AIM companies and a Corporate Adviser for Plus Markets.

In September 2007, private client stockbroker JM Finn transferred its corporate finance, research and institutional broking business into a new subsidiary, JMFinn Capital Markets (finnCap). The management team and employees of finnCap took a significant equity stake in the business.

In September 2010, finnCap employees and chairman, Jon Moulton, acquired the outstanding 50% of the company that was previously owned by JM Finn. The company name has changed to finnCap Ltd, in line with the trading name.

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