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AIM JOURNAL

Greenshields farms AIM investors

Edinburgh-based Greenshields Agri, a profitable farm investments business, intends to float on AIM in order to raise £3m to buy more arable land, where a lack of supply is leading to rising prices. Savills believes that farmland prices could rise by 6-8% a year.

Greenshields is focused on an area "stretching up the east coast of the UK from the Humber estuary in England to the river Tay in Scotland", which it refers to as the northern grain belt. It farms more than 3,500 acres and owns 2,850 acres of this land. A further 220 acres in Northumberland will be acquired after flotation.

In 2008, AIM-quoted Braemar tried to float the Braemar UK Agricultural Fund on AIM but it could not raise enough cash to come to AIM. Braemar, which was acquired by Brooks Macdonald, did list a fund on the CISX.

According to the RICS/RAU Rural Land Market Survey, over the past two decades rural land prices have risen from around £2,000/acre to £10,000/acre. Demand for farmland is outstripping supply, although declines in commodity prices have held back growth in demand in recent times. Land prices in Scotland rose by 17% over the past year, which is the fastest rate of growth in the UK. However, prices in Scotland are still half of the national average. Wales and Yorkshire and Humber were also strong regions.

Tikal's international development

Tikal Networks, which is run by the Dmatek electronic tag business founder Doron Dovrat, plans to raise up to £5m in an AIM flotation that should value the cloud-based IP telephony and call centre software and services provider at £16m. The cash will finance further development and growth. Ease of use, ability for rapid set-up, lack of upfront costs and good service make Tikal's products attractive to smaller businesses.

The most recent full-year revenues grew from \$2.4m to \$3.7m. Tikal predominantly generates revenues from a monthly fee based on the number of users. There has been a significant move towards this monthly revenue model in recent times and although interim revenues were flat at \$1.9m customers are being added, with the full benefit coming next year.

Israel has been the main market for the company so far and it has just set up an office in the UK. However, there is no reason that the services cannot be sold internationally, particularly now that Tikal has developed an automated version of its system, and pilot schemes have been set up in other markets.

In this issue

general news

Gervais Williams investor event

Gervais Williams, chief executive of fund manager Miton, will be talking about his recently published book, The Future is Small, on 11 March at an investor event in London organised by Small Cap UK. Williams will be arguing that AIM has unique characteristics that mean it has the potential to be the best-performing world market for many years to come.

The Future is Small is published by Harriman House and is a follow-up to Williams' first book, Slow Finance, which was published in 2011. The subheading of the new book is "Why AIM will be the world's best market beyond the credit boom". Williams argues that big is not better and presents data to back up his argument that smaller companies offer better investment opportunities than their larger counterparts.

Williams has been a fund manager for three decades and manages a number of funds, with more than £1bn of assets, including investment trust Diverse Income Trust. He is also a member of the AIM Advisory Council and is on the board of small companies' pressure group the Quoted Companies Alliance.

Further details of the investor event, which is being held in the evening at the Brand Xchange in 3 Birchin Lane, London, can be found on the relaunched Small Cap UK website (www.smallcapuk.com), which is aimed at investors, chief executives, finance directors and advisers. The new website includes news, comment and profiles, as well as details of this year's Small Cap Awards, which focus on quoted companies on ISDX and AIM with a market value of less than £150m. The awards will be held on 19 May. This year, for the first time, there will be an award for crowdfunded IPO of the year.

US small cap proposals

In a presentation called The US Need for Venture Exchanges made for the SEC Advisory Committee on Small and Emerging Companies, David Weild, chief executive of IssuWorks, has argued that the US needs a new market for small companies. Weild says that Nasdaq was the de facto US Venture Exchange but it has lost its way. He proposes that the SEC should establish a Venture Exchange division to oversee member-owned Venture Exchanges that will compete against each other and existing exchanges for new listings with a market capitalisation of up to $2 billion.

Weild argues that the Venture Exchanges should be exempt from Sarbanes-Oxley and other rules and regulations that have stifled the US small cap market. However, he believes that no exchange-traded funds or index funds should be allowed.

Max Petroleum hit by oil price fall

Kazakhstan-focused Max Petroleum is the latest oil and gas company to fall foul of the declining oil price. Trading in the shares has been suspended as Max tries to negotiate a debt restructuring with Sberbank and a potential equity investment from AGR Energy. The Kazakh tax authorities are due to be paid and this limits the time that can be taken on the refinancing.

The original AGR subscription is not proceeding but the company is still interested in investing in Max if a new agreement can be made.

At the end of September 2014, Max had proved and probable reserves of 9.94 million barrels of oil equivalent. In the six months to September 2014, 4,239 barrels of oil equivalent was produced each day – 17% higher than in the first half of the previous financial year.

Company Watch (www.companywatch.net) calculates the financial position of a company using what it calls H-scores, which are based on analysis of company accounts. At the end of last year, Max had an H-score of 4. A score of less than 25 is a warning sign of a company's financial health so it is not a great surprise that Max is in such financial difficulties. Max has particularly low scores when it comes to debt dependency, its equity base, current asset cover and liquidity.

New Zealand-focused Kea Petroleum, which is another oil and gas company with an H-score of 4, has started a review of strategic options. This could include a sale of the business, a merger or securing more funding. In contrast to Max, debt dependency is not a problem but current funding is even more of a concern. There was £684,000 in the bank at the end of November 2014. The cash outflow from operating activities was £2.24m in the previous six months.

advisers

Wealth management division propels WH Ireland

AIM adviser WH Ireland increased its underlying profit on the back of flat earnings in the year to November 2014. However, the reported profit was held back by restructuring and one-off costs. The main growth has come from the wealth management division, which has £2.48bn under management, with discretionary assets more than two-fifths higher than in the previous year.

Management fee income increased by a quarter to £4.9m and commission income increased slightly. Offices in Milton Keynes and the Isle of Man were opened although smaller offices were closed and some services withdrawn.

The 2014 AIM Award winner for best research has increased its number of corporate clients from 85to 93 and the vast majority of these are on AIM. This helped retainers to rise by 7% to £3.2m but transaction income fell because of cancelled fundraisings and deals. Market-making revenue also declined.

In the year to November 2014, revenues edged up from £29.7m to £30m, while reported operating profit fell from £919,000 to £690,000. That is after £758,000 of restructuring and one-off costs and a loss of £223,000 on investments, compared with a £696,000 gain the previous year. The dividend was increased by one-third to 2p a share.

The FCA investigation into WH Ireland and its control procedures between 1 January 2013 and 19 June 2013 that was launched in April last year continues. Management admits that there is likely to be a fine and other costs but no provision has been made because it is difficult to come up with a reliable estimate.

■ Oriel Securities is changing its name to Stifel Nicolaus Europe Ltd, which is a subsidiary of Stifel Financial, which acquired Oriel last year. Offshore services provider SeaEnergy and oil and gas company Hague and London have been added as AIM clients since the takeover, although last autumn's proposed flotations of rural broadband fibre networks provider Gigaclear and designer of advanced bionic prosthetic hands Touch Bionics have not happened.

ADVISER CHANGES - FEBRUARY 2015

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
EKF Diagnostics	Panmure Gordon	finnCap	Panmure Gordon	finnCap	2/2/15
Greka Engineering & Technology	WH Ireland	WH Ireland/ RFC Ambrian	Smith & Williamson	Smith & Williamson	2/2/15
Ludgate Environmental Ltd	Panmure Gordon	Panmure Gordon	Panmure Gordon	PwC	2/2/15
Redhall Group	WH Ireland	WH Ireland/ Charles Stanley	Altium	Altium	2/4/15
ARC Capital Holdings	Edmond de Rothschild	Numis	Grant Thornton	Grant Thornton	2/6/15
Enables IT Group	Cairn	Cenkos	Cairn	Cenkos	2/10/15
Hague and London Oil	Oriel	WH Ireland	Oriel	WH Ireland	2/10/15
Camco Clean Energy	finnCap	N+1 Singer	finnCap	N+1 Singer	2/11/15
XL Media	Liberum/Cenkos	Cenkos	Cenkos	Cenkos	2/12/15
CAP-XX Ltd	Allenby/Cenkos	Cenkos	Cenkos	Cenkos	2/13/15
Mill Residential REIT	finnCap/Sanlam	Sanlam	Sanlam	Sanlam	2/13/15
3Legs Resources	Peterhouse/Northland	Northland	Northland	Northland	2/16/15
PHSC	Sanlam	Northland	Sanlam	Northland	2/16/15
Zambeef Products	finnCap/Panmure Gordon	Panmure Gordon	Strand Hanson	Strand Hanson	2/17/15
Mosman Oil & Gas Ltd	SP Angel/SI Capital	SI Capital	ZAI	ZAI	2/23/15
CentralNIC Group	Peel Hunt/Zeus	Zeus	Zeus	Zeus	2/26/15
Vmoto Ltd	Mirabaud/finnCap	finnCap	finnCap	finnCap	2/26/15
China Chaintek United	ZAI	Daniel Stewart	ZAI	ZAI	2/27/15
WH Ireland	WH Ireland	WH Ireland	SPARK	Panmure Gordon	2/27/15

company news

Sigma Capital residential regeneration begins to gather pace

Residential property development *www.sigmacapital.co.uk*

Rental is the fastest-growing part of the housing market and it has been for more than a decade. The growth looks set to continue as it becomes increasingly difficult for many people to afford to buy a home. **Sigma Capital** has made a start to developing a portfolio of rental properties along with its partners and has completed the first homes in its £100m development of 927 private rental homes with Gatehouse Bank.

The first homes are in Norris Green, Liverpool and Lower Broughton, Salford. These are taken and the majority of homes that will be completed in the next few months are already pre-let or reserved. There are 14 sites in total and the 927 homes should be completed over the next 18 months. The land comes through partnerships with Liverpool and Salford councils. The company's strong relationships with many metropolitan authorities will enable it to obtain other sites to redevelop.

Sigma will receive a share of net disposal profit

Sigma receives an initial fee when construction commences and a development management fee paid quarterly over the time of the development, based on the cost of the development. When the development is completed Sigma will receive a share of net disposal profit after investors achieve a minimum return.

Sigma also has a strategic partnership with fully listed residential property investor Grainger Trust, which has an exclusive option, lasting four years, to acquire developments of 100 units or more.

SIGMA CAPITAL (SGM)			61p
12 MONTH CHANGE %	- 30.3	MARKET CAP £M	39.3

According to figures from the Office of National Statistics, private rented dwellings have increased from 2.51m in 2001-02 to 4.96m in 2011-12. There has been a move from public sector to housing association stock, which has increased from 1.7m to 2.7m, but the combined local authority and social housing stock has fallen slightly and 2011-12 was the first year in the period when private rented housing stock was higher than local authority and housing associations combined. Over the same period owner-occupied home numbers were flat at 17.8m. The total number of dwellings has risen from 25.6m to 27.8m.

Public Service Properties exits UK care homes

Care homes investor *www.pspiltd.com*

Public Service Properties Investments (PSPI) has sold its remaining UK nursing home properties for £32m, leaving it with a handful of properties in Germany. There should be scope for returning cash to shareholders, particularly if the remaining properties are sold.

Embrace, which is the tenant of all of the properties, is paying £31.5m for them – this excludes £500,000 of rent paid so far this year. There could be an extra £2.5m paid before the end of the year depending on successful retenders for domiciliary care contracts in Liverpool. Even with that extra cash the amount raised from the disposal is much less than the £50m book value at the end of June 2014, although a more recent valuation shows less of a premium to the sale price. The dependence on one client and the tough trading conditions did not help in the disposal.

PUBLIC SERVICE PROPERTIES INVESTMENTS (PSPI)			24.25p
12 MONTH CHANGE %	- 14.5	MARKET CAP £M	25.3

Three German properties have been sold and Westhouse estimates that there will be cash of £20.1m with the remaining debt of €4.4m (£3.3m) against five German properties valued at €19.1m (£14.2m) at the end of 2014. Those German properties generate annual rent of €2.1m (£1.6m) and this should be enough to cover costs. The estimated NAV is 29.5p a share, excluding deferred consideration, around two-thirds of which is in cash.

company news

Horizonte Minerals well placed to take advantage of growing nickel demand

Mining — *www.horizonteminerals.com*

HORIZONTE MINERALS (HZM)			2.75p
12 MONTH CHANGE %	- 56.9	MARKET CAP £M	13.5

Medium-term growth in nickel demand due to increasing use in stainless steel production is a positive backdrop to the potential development of the Araguaia nickel project in Brazil, which is 100%-owned by AIM and TSX-quoted **Horizonte Minerals**. Araguaia is estimated to have a post-tax net present value of $519m on its base case of annual production of 15,000 tonnes of nickel per annum over 25 years. First production could be in early 2018.

There is already mining and transport infrastructure in the region and other major nickel projects in the surrounding area. The project is relatively low cost, with estimated production costs of around $4/lb. Further positive drilling news was reported in January and these results underpin the reserve statement and will be used in the feasibility study. The indicated resource base is 71.98 million tonnes @1.33% nickel.

Araguaia could require capex of $582m

Nickel supply has been constrained due to Indonesia banning exports last year and there is a shortage of new nickel projects, although the market is expected to be in balance this year as stocks fall. Nickel demand is growing at an average rate of 6.8% since 2010 and this suggests that 300,000 tonnes of new nickel production will be required in 2018.

There was an outflow of more than £3m from operations and investing activities during 2014. Last summer, Horizonte raised C$10.1m (£5.45m) at C$0.11/6p a share – well above the current share price. Most of these shares were taken up by existing investors Teck Resources and Henderson, which own 38.3% and 14.1% of Horizonte, respectively. At the end of 2014, there was still £5.03m in the bank. There is contingent consideration of £2.24m relating to tax losses but this is not payable until the tax losses are being utilised. Horizonte has an £8m equity financing facility with Darwin Strategic which lasts for 36 months from June 2013. There is no obligation to use the facility at any time. No shares relating to this facility were issued during 2014.

However, Araguaia could require initial capex of $582m for the preferred base case with a payback period of 4.4 years, or $1.44bn on a larger scale with a payback of 3.9 years. Having Teck as a major investor could help with financing and Horizonte management has experience of developing nickel mines.

Rose sets its sights on US oil and gas

Oil and gas, mining — *www.rosepetroleum.com*

ROSE PETROLEUM (ROSE)			1.72
12 MONTH CHANGE %	+ 283.3	MARKET CAP £M	25.7

Rose Petroleum has completed the sale of its non-core assets and it is focusing on its oil and gas prospects in the US and generating cash from its gold-silver Mina Charay project in Mexico.

Rose has increased its gross acreage in the Paradox and Uinta basins to 251,841 acres through an agreement with Rockies Standard Oil Company. The focus will be on projects with a low breakeven oil price of around $20/barrel. Even if there is another dip in the oil price these projects should still be cash generative. Rose bought the nearby Cisco Dome project which is producing gas and oil – and cash of around $25,000/ month - and came with a gas processing plant that can be used by other group projects. There is $9m in the bank and more disposal proceeds to come.

The cash generated from mining activities will cover any exploration spending on the joint venture exploring the Camargo Tango porphyry copper-molybdenum project. The 60% share of profit on the cash generating project could yield around $200,000/ month.

company news

dotdigital focuses on higher-spending customers as it expands internationally

Digital marketing services *www.dotdigitalgroup.com*

> There is further growth to come from the US

DOTDIGITAL (DOTD)			34p
12 MONTH CHANGE %	+ 9.2	MARKET CAP £M	106.9

Larger customers spending more and additional sales in the US have helped email marketing services provider **dotdigital** grow interim revenues by one-third.

In the six months to December 2014, revenues grew from £7.6m to £10m, with the US contribution more than doubling to £1.1m. Recurring revenues jumped from £5.8m to £7.4m. Higher admin expenses offset some of this revenue growth but pre-tax profit still improved from £2.16m to £2.54m.

There is further growth to come from the US, where there are plans to open offices in Chicago and Los Angeles. The company is also opening an office in Australia as the first step into the Asia Pacific market. There are also plans to offer additional advanced services at premium rates – at the moment there is one price for everything.

The transition to the new chief executive appears to have gone smoothly, with Simone Barratt taking on the role and Peter Simmonds stepping down to deputy chief executive prior to his retirement later in the year.

The balance sheet remains strong thanks to the cash-generative nature of the business. There was £9.5m in the bank at the end of 2014. The cash pile could be near to £14m by June 2016. Since the results, dotdigital has bought back 375,000 shares at 35p each.

Joint broker finnCap forecasts a rise in full-year profit from £3.6m to £4.8m, although a higher tax charge will hold back earnings per share growth. The shares are trading on 24 times prospective 2014-15 earnings and this could fall to 21 times in 2015-16 even after a one-third cut in the profit forecast due to higher investment. The full benefits of this investment could show through in 2016-17 when a profit of £8.5m would mean a reduction in the earnings multiple to 14. There is plenty of potential for long-term growth at dotdigital.

GLI provides high-yielding investment alternative

Small company finance provider *www.glifund.com*

GLI FINANCE (GLIF)			62p
12 MONTH CHANGE %	+ 7.4	MARKET CAP £M	88.6

Alternative finance provider **GLI Finance** is raising £20m at 58p a share in order to fund its growing activities in the finance of small and medium-sized companies. The placing is at a 7% discount to the market price prior to the announcement but it is also a premium of 14% to the company's net asset value of 51p a share at the end of 2014.

Smaller companies are turning to alternative finance providers as bank finance remains difficult to obtain. The alternative finance market in the UK is estimated to have grown 161% to £1.7bn last year – 2% of bank lending. However, alternative finance provides a quarter of small business funding and peer-to-peer lending is about to become an ISA-eligible investment. GLI has invested in 16 different funding platforms across three continents.

Additional cash for further investments has been raised through the sale of GLI's stake in Fair Oaks Income Fund Ltd for $32.3m. There are also plans to float an investment fund that will raise third-party capital to invest in a portfolio of loans.

GLI plans to build up its dividend cover. Last year, 5p a share was paid – in equal quarterly amounts – providing a yield of 8.1% and that was not covered by earnings per share. An unchanged dividend should be covered by earnings in 2015 even after the dilutive effect of the placing. The 2014 results will be published before the end of March.

Dividends set to surpass previous record at Tristel

Infection prevention products *www.tristel.com*

Dividend

Tristel is rebuilding its dividend after cuts in recent years. In the year to June 2014, the total dividend was 1.62p a share and in the latest interims the dividend was increased from 0.36p a share to 0.585p a share. That means that Tristel is on course to pay its highest-ever annual dividend. A total dividend of 2p a share would be 2.1 times covered by forecast earnings.

Tristel paid a maiden dividend of 0.5p a share in the year to June 2005 even though it was only quoted for one month of that financial period. The dividend then rose for five years in a row to 1.825p a share before it was cut to 0.555p a share in 2010-11 as increased costs led to a fall in profit. After a small rise to 0.62p a share there was another cut to 0.4p a share when the results were hit by a decline in the endoscopy cleaning business, which is no longer a significant revenue generator.

Business

Tristel has three divisions and all have potential for growth in the UK and internationally. The original business is the human healthcare division, which supplies hospital infection prevention products under the Tristel brand. More recently, Tristel has moved into contamination control for critical environments where products are sold under the Crystel brand. The third division supplies Anistel infection prevention products to veterinary practices.

Each of these divisions is growing but human health remains the largest, generating 86% of interim revenues. UK sales are still growing but international sales are likely to continue to grow much faster as more of the product range gets approved in overseas countries. Tristel wants to establish a presence in the US, which could become a significant market for the company.

Contamination control is still growing from a relatively low base. The focus is the clean-room market. Anistel already has a strong market share in the UK vets market. Management wants to convert these sales to Tristel's own ClO2 chemistry, which is safer and performs better than the existing product.

In the six months to December 2014, revenues were 15% ahead at £7.41m and underlying profit improved from £746,000 to £1.1m. Net cash was £2.9m at the end of 2014. Tristel has invested £400,000 to expand its factory and intends to spend £150,000 on new machinery.

Over three years, the company wants to grow revenues by at least 50% from the £13.5m base reported in 2013-14. Full-year profit is expected to jump from £1.8m to £2.3m in 2014-15 and then improve further to £2.6m. The shares are trading on 20 times prospective 2014-15 earnings, falling to 17 the following year. Further international expansion and new products should ensure continued growth for Tristel.

TRISTEL (TSTL)	
Price (p)	83.5
Market cap £m	34
Historical yield	1.9%
Prospective yield	2.4%

Dividend news

Engineer **Avingtrans** increased its interim dividend from 0.9p a share to 1p a share even though interim revenues fell by 14% to £27.5m in the six months to November 2014. Avingtrans had already warned about destocking by an aerospace customer, although sales are getting back to previous levels. Revenues are expected to recover in the second half, even though demand from oil and gas customers is likely to weaken, but profit is expected to decline from £3.5m to £3m. A forecast 2014-15 dividend of 3p a share would still be covered more than three times by forecast earnings. Costs will be reduced by £600,000 next year and a recovery in profit to £4m is forecast.

Tough trading conditions mean that revenues and profit have fallen at tobacco and packaging machinery supplier **Molins** but it has maintained its total dividend at 5.5p a share, providing a 6% yield. That dividend is not covered by reported earnings but it is twice covered by underlying earnings. Net debt was £2.1m at the end of 2014 but the pension deficit increased to £15.2m. This year the focus will be on cost control and profit is expected to edge up from £3.3m to £3.4m with flat earnings.

Market volatility has been good news for online contracts for difference provider **Plus500** and it is paying a special dividend on top of its 2014 final dividend thanks to strong cash flow. The final dividend is $0.3001 a share and that takes the total dividend for the year to $0.5351 a share. On top of the final dividend a special dividend of $0.2657 a share is being paid. The ex-dividend date is 19 March. Plus500 will pay a total of $92m in dividends for 2014. The ongoing dividend pay-out policy has been increased from 50% to 60% of post-tax profit.

expert views

Expert view: The broker

Quartix delivers the cash

By LORNE DANIEL

Telematics supplier Quartix* has delivered maiden results as a quoted company showing revenue and profit marginally ahead of forecasts, and strong cash generation in the second half of 2014. Quartix has made a strong start to 2015, highlighting the high level of recurring revenue and growth opportunities from the UK, France and the new US operation.

In 2014, revenue was 16% ahead at £15.3m, adj. PBT up 4% to £4.8m, and adj. FD EPS up 2% to 8.4p (against forecasts of £15.1m, £4.8m and 8.3p respectively). Fleet revenues grew 20% to £11m (now 72% of group sales) but with a creditable contribution from insurance, which grew revenues by 7% to £4.3m. This was slightly better than the £3.9m we expected.

Quartix continues to deliver on revenue growth and cash generation

Gross margins were maintained at 65% despite the pricing pressure in insurance. Overheads rose 31% with the cost of opening the US business and new plc costs holding back profit growth. However, with the US office now on board, we expect profit growth to flow through to the bottom line in future years. The adjusted profit is before a net £0.2m of exceptional profit with a £0.7m gain from compensation for mis-sold hedging contracts more than offsetting £0.5m of IPO costs.

Quartix received £9.8m of recurring monthly subscriptions in 2014, building an excellent base of high-visibility cash-generative revenue. This led to £5.8m of cash being generated from operations during the year and 118% cash conversion from EBITDA (105% LY). With little capex, this delivered £4.7m free cash flow, significantly ahead of our conservative £3.8m, which means that net debt has fallen to just £0.2m when we had expected £1.1m debt at the year end. The 3p final dividend was in line with expectations.

Fleet

The fleet business is the growth engine for Quartix. It has an excellent reputation and an established long-term client base within the UK SME market. Attrition rates continue to fall and are now at 9.4%, well below the industry average of 14%.

The French business is smaller but able to grow more rapidly (36% YoY growth in installations) and this should be boosted by channel partners coming online this year.

Fleet has made a strong start in the US. There is an opportunity from the change from 2G to 3G networks in the US, forcing many logistics firms to re-evaluate their telematics providers, and Quartix's arrival with a flexible low-cost offering is clearly attractive to US SMEs, bringing 120 customers and 500 deployments in the first eight months alone. To follow up this success, management is expected to make further investment in 2015; however, the bulk of the set-up costs have now been seen.

Insurance

The relationship with data management partner Wunelli remains key to the insurance business where pricing continues to be the main issue. Insurance installations were up 13% in the year; however, the previously flagged pricing pressure in this market reduced the revenue growth to 7%. Quartix's management has made it clear that it will not be bid down on high volume insurance contracts and has let at least one insurer go to rival suppliers. Equally, Quartix, along with Wunelli, is winning new business and it has started to supply two other insurers to compensate. We expect insurance to continue to grow in spite of the pricing pressure; however, it will continue to be secondary to fleet growth. It is interesting to note the comment that Quartix is investigating opportunities in fleet from tie-ups with insurance partners, which could be a lucrative strategy.

Valuation

The shares have seen strong appreciation since the IPO; however, the business continues to deliver on revenue growth and cash generation.

The strong growth in the fleet business looks set to continue, with the French and US operations making an increasing contribution. Channel partners are being introduced in 2015 and this should further benefit fleet growth, as should the tie-ups with established insurance partners. All of this is contributing to greater visibility and correspondingly strong cash flows.

Given the security, growth and quality of the stock, we feel it deserves a premium rating in the market and expect it will soon be trading on a multiple of 19x 2015 earnings and a multiple of 15x EV/EBITDA. We therefore lift our target price to 180p on the back of the 2014 results.

**Quartix is a corporate client of finnCap*

LORNE DANIEL is a research director at finnCap feature

Why AIM is better regulated than the standard list

Standard list companies do not have to follow all the regulations required by AIM, let alone all the requirements for a premium listing.

In recent months a number of shells have been floating on the standard list of the Main Market but it is unclear if investors'really understand what a standard listing entails. The Main Market is normally associated with higher regulatory standards than AIM but that is the premium listing and, arguably, the standard listing has lower requirements than AIM.

In the first ever edition of AIM Journal we wrote about the proposals for standard listings (http://www.hubinvest.com/AIMPDFOctober2009_1.pdf). We pointed out at the time that standard listings would be easier to obtain than premium listings. The forerunner of standard listings was used by international companies to gain a London listing but it was opened up to UK companies as well.

A standard listing is not covered by all the rules that relate to a premium listing and in many cases there are stricter rules for AIM companies. Many of the rules that do not apply to standard listings are more significant when it comes to shells because they do not have a business and in theory could buy any business without getting shareholder approval.

When shells started to come to the standard list they raised hundreds of millions of pounds. Horizon Acquisition became temporary power equipment supplier APR Energy, Vallar – less happily - became miner Bumi and then Asia Resource Minerals, while Justice Holdings, which raised £900m, merged with Burger King Worldwide and moved to the New York Stock Exchange. Nomad Holdings, which raised $485m at $10 a share last April is the last of these large shells looking for an acquisition.

In recent times, the shells have been raising much smaller amounts of money and they have been penny shares. In fact, these shells would not be eligible to float on AIM because they are not raising a minimum of £3m of cash prior to flotation – a rule brought in a decade ago because of the flood of shells onto AIM. If the AIM shell's investing policy is not implemented within 18 months of admission shareholder approval should be sought annually. There are no such deadlines for standard list shells, although some say they will seek shareholder approval for continuing in operation.

A lack of liquidity normally leads to an initial jump in the share price of the standard list shell, which then falls back. (Of course, that has happened with AIM shells as well.) For example, Cleantech Building Materials floated at 1p a share and went to 3.25p a share after a couple of days. The share price has fallen back to 1.75p but the bid-offer spread is 1p/2.5p – effectively an unchanged share price for investors in the flotation. This shows that wide bid-offer spreads are not just a problem on AIM.

The one time that it can be argued that standard listings come under more scrutiny than AIM companies is when they float. The prospectus of a standard listing has to be vetted by the UK Listings Authority (UKLA) whereas AIM company prospectuses are the responsibility of the nominated adviser. However, once the flotation hurdle is negotiated it gets much easier for standard list shells.

> A standard listing is not covered by all the rules of a premium listing

There are five chapters of the listing rules that are highlighted in prospectuses as applying to premium listings and not standard listings. Many standard list shells say that they will comply with some of the regulations but the UKLA does not oversee whether or not they keep those promises.

Chapter 8

This relates to the appointment of a sponsor, which standard list companies do not have to do. This means that there is no equivalent of a nominated adviser. A standard list company may have a broker but it does not have anyone to advise it on its corporate governance and listing matters. Nominated advisers are criticised by some but at least they keep in regular contact with clients.

Chapter 10

Premium listed companies require shareholder approval of significant transactions and, while the rules are less strict, AIM also requires shareholder approval of transactions of a slightly larger size.

This is particularly relevant for reverse takeovers, which in the case of AIM are deals that exceed 100% in any of the class tests. There are a number of class tests set out in the AIM rules and they include the gross assets, profit and consideration tests. All these are based on the figures for the transaction as a percentage of the relevant figure for the company.

For example, Cleantech Building Materials in its prospectus states: "It should be noted therefore that the acquisition will not require shareholder consent, even if ordinary shares are feature

being issued as consideration for the acquisition".

Chapter 11

This chapter sets out how related-party transactions should be handled. In the case of AIM, a transaction with a related party is one that exceeds 5% in any of the class tests and the directors not related to the transaction have to consult the nominated adviser and state that the transaction is fair and reasonable.

Some standard list companies say that any related-party transactions will have to be approved by the directors. However, there is no sponsor/nominated adviser to make sure that these related-party transactions are handled appropriately.

Chapter 12

This chapter includes rules about a company purchasing its own shares. Some companies say that they have specifically not adopted a policy consistent with listing rules 12.4.1 and 12.4.2.

Rule 12.4.1 says that if less than 15% of the ordinary shares are being bought back, the price paid for the shares should not be more than the higher of 5% above the average market price over the previous five trading days and the price of the last independent trade or the highest current independent bid on the market.

A premium listed company would have to make a tender offer to buy back more than 15% of its own shares or it would have to set specific buy-back terms approved by shareholders, according to rule 12.4.2.

These shells would not be eligible to float on AIM

Many of the standard list prospectuses say the company will have unlimited authority to buy back its shares. In theory, it can offer to buy back shares at much higher than the market price without offering the opportunity to all shareholders even if it is a related-party transaction.

Chapter 13

This sets out what should be included in any shareholder circulars and the approvals they require, including what financial information needs to be published in particular types of circular.

Standards

Just because there are less stringent rules it does not mean that a company will not be run properly and managements' can choose to provide additional information to shareholders.

Some boards do as little as they can get away with and when questioned point out that they have complied with the rules even if they could have easily provided more information. That can happen whatever market is traded on.

One of the knock-on effects of the ease of floating shells on the standard list could be that AIM shells will be less sought after. Most AIM shells are not completely new, clean shells like the standard list ones – although Highway Capital is a shell that has been around more than a decade and moved from premium list to standard list – so any company reversing into them might still have problems to sort out.

There are not many institutional investors in standard list shells, although Hargreave Hale owns 12.3% of Cleeve Capital, whose shares have been suspended at 4.88p a share because it is in talks to acquire a satellite communications business. Cleeve floated at 3p a share, although initial cash was raised at 1p a share. Cleeve was seeking an acquisition valued at between £10m and £100m.

The point is that investors may not understand what they are getting into with a standard listed company. They may believe that they are better protected by the UKLA than they are.

Shells are a risky investment at any time and there is no reason for investors' to let their guard down because a shell is on the standard list, in fact they should probably be even more vigilant.

STANDARD LIST SHELLS

COMPANY		FLOAT DATE	ISSUE PRICE	MONEY RAISED	CURRENT PRICE
Acorn Minerals	ACO	2/29/12	20p	£1.58m	15.25p
Xplorer	XPL	7/11/13	16p	£1m	12.5p
Nomad Holdings	NHL	4/15/14	$10	$485m	$10.28
General Industries	GNI	8/28/14	10p	£0.93m	26p
Cleeve Capital	CLEE	12/19/14	3p	£3.235m	4.88p
Mithril Capital	MITH	12/22/14	3p	£3.32m	3.75p
Vertu Capital	VCBC	1/28/15	1p	£0.8m	1.1p
Cleantech Building Materials	CBM	2/18/15	1p	£0.7275m	1.75p
Challenger Acquisitions	CHAL	2/19/15	10p	£0.7m	13p

Market Performance, Indices and Statistics

AIM SECTOR INFORMATION

SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Financials	26.3	18.5
Industrials	14	16.5
Consumer services	13.7	11.1
Technology	11.3	10.9
Healthcare	10.4	7.1
Consumer goods	7.8	5.1
Oil & gas	7.3	11.9
Basic materials	5.7	15.4
Telecoms	2.1	1.4
Utilities	1.4	1.4

FTSE INDICES

ONE-YEAR CHANGES

INDEX	PRICE	% CHANGE
FTSE AIM All-Share	713.59	-19.4
FTSE AIM 50	3599.58	-25.6
FTSE AIM 100	3165.74	-21.5
FTSE Fledgling	7138.11	+4.8
FTSE Small Cap	4548.48	-0.5
FTSE All-Share	3743.76	+2.3
FTSE 100	6946.66	+2

COMPANIES BY MARKET CAP

MARKET CAP	NO.
Under £5m	268
£5m-£10m	120
£10m-£25m	225
£25m-£50m	169
£50m-£100m	127
£100m-£250m	129
£250m+	53

KEY AIM STATISTICS

Total number of AIM	1091
Number of nominated advisers	40
Number of market makers	52
Total market cap for all AIM	£69.5bn
Total of new money raised	£90.1bn
Total raised by new issues	£39.4bn
Total raised by secondary issues	£50.7bn
Share turnover value (2015)	£2.74bn
Number of bargains (2015)	0.54m
Shares traded (2015)	23bn
Transfers to the official list	171

TOP 5 RISERS OVER 30 DAYS

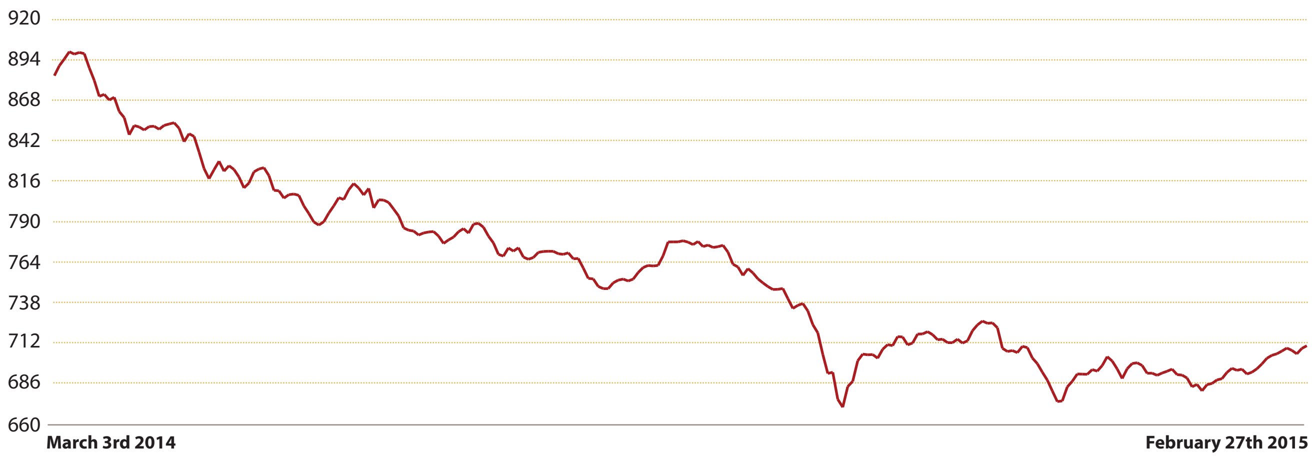
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Clean Air Power Ltd	Cleantech	3.27	+178.7
DP Poland	Restaurants	24	+143
RTC Group	Recruitment	77	+87.8
Europa Oil & Gas	Oil and gas	8.38	+67.5
Mosman Oil & Gas Ltd	Oil and gas	7.37	+66.7

TOP 5 FALLERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Frontier Mining Ltd	Mining	0.06	-72.5
Max Petroleum	Oil and gas	0.16	-70.9
Forte Energy	Mining	0.15	-60.8
Tower Resources	Oil and gas	0.2	-60
Providence Resources	Oil and gas	27.5	-54.1

AIM - 1 YEAR INDEX CHANGE

Source: London Stock Exchange



Data: Hubinvest Please note - All share prices are the closing prices on the 28th February 2015, 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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