ICIS
Source: Growth Company Investor {Main}
Edition:
Country: UK
Date: Wednesday 1, July 2009
Page: 12,13
Area: 921 sq. cm
Circulation: Pub Stmt 5000 Monthly
BRAD info: page rate £2,800.00, scc rate £0.00
Phone: 020 7250 7010
Keyword: Norcon plc

NORCON PLC

AIM's income set to flow

Small-cap fund management star Gervais Williams believes AIM will move towards being an 'alternative income market' over the next few years. However, a troop of dividend-paying ventures already exists on AIM, providing income-hungry investors with rich pickings. **Oliver Haill** reports

'Why would investors focus on a market going up and down all the time with no dividend or falling dividends?' asked Gervais Williams, leading fund manager at Gartmore, recently. He argues that they won't. However, if AIM companies would change their approach toward dividends, the shift could foreshadow a period of glorious growth for small-cap shares.

'During the previous two periods of rapid real dividend growth in the past half-century, beginning in the late 1950s and again in late 1980s,' he reminds investors, 'small-caps outperformed large-caps for a multi-year period.'

By tradition and design, stocks listing on AIM have typically been emerging, growing businesses, with the commonly held view being that they should not pay a dividend, or that dividends should be seen as a rare treat. Indeed, for the most part, such smaller companies have tended to jealously squeeze every last drop of whatever cash they raised, preferring to spend their money on forging organic growth or on funding acquisitions, while ploughing excess cash back into the business.

Now, however, Williams thinks that the fundraising rationale that historically attracted companies to AIM is no longer functioning, since share prices have fallen so far that small companies cannot raise capital with their shrunken paper.

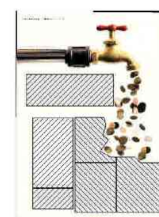
But, runs his argument, if companies offer a healthy yield of five, six or seven per cent, and adopt a progressive dividend policy, the chances are that they will see a substantial uplift in their share price, which will enable them to raise equity whenever they need cash to take advantage of expansion opportunities. Williams is preaching his lesson to those 100 or so small-cap stocks that sit within his fund's portfolio.

'My expectation is that AIM will, over the next five years, move from being a market that distributes almost no income via dividends to one that distributes significant and growing income. A lot of companies that previously were not paying dividends are being encouraged to do so and to grow them. We think that will bring a huge amount of capital into the sector.'

He believes that by doing this, companies will enjoy far improved share price performances and, therefore, should they need cash to grow, they will be far better placed to raise capital, with investors beating a path to their door.

Cash-rich pickings

One company that has already fitted itself into Williams's model is Norwegian telecoms and defence



Produced by Durrants under licence from the NLA (newspapers), CLA (magazines) or other copyright owner. No further copying (including printing of digital cuttings), digital reproduction/forwarding of the cutting is permitted except under licence from the copyright owner.

IC|IS

Source: Growth Company Investor {Main}
Edition:
Country: UK
Date: Wednesday 1, July 2009
Page: 12,13
Area: 921 sq. cm
Circulation: Pub Stmt 5000 Monthly
BRAD info: page rate £2,800.00, scc rate £0.00
Phone: 020 7250 7010
Keyword: Norcon plc

NORCON PLC

outsourcer **Norcon**. Although 75 per cent owned by management – always a good reason to pay a dividend – the company will provide shareholders already on the register with a bumper 7.6 per cent yield this October. Even for those investors yet to climb aboard (who won't therefore be eligible), there are still many compelling reasons to consider the shares.

Since it works on large infrastructure and defence technology contracts for such clients as the Saudi state telecoms provider and government agencies, Norcon enjoys unusually good visibility on its revenues for an AIM company. As such, the majority of the current year's sales have already been booked, so this financial year, say management, should result in an even larger dividend payout. The board is also apparently considering paying an interim dividend, but no decision has been made as yet. Broker FinnCap foresees a total dividend payment for 2010 of around 5.9p, based upon which the shares currently offer a tasty 8.3 per cent yield. Get on board.

Oxfordshire-headquartered **Nationwide Accident Repair Services** is another AIM venture with a bulging balance sheet and a generous approach to dividends. With £7.4 million of cash on its balance sheet, its shares presently trade on a historic yield of over six per cent. After encountering tougher trading in the first months of the year, the early weeks of summer have seen a more positive profile emerge and, although its previously forecast 5.2p dividend has been trimmed to nearer 4.6p, the shares, now 82p, offer a prospective yield of 5.5 per cent.

With around £25 million of net cash in its coffers and offering a 3.5 per cent yield, **RWS** also fits the new Williams model. Providing patent translations and technical searches for the intellectual property industry, the company is a market leader and offers investors highly visible and defensive earnings. Recent interim results revealed 21 per cent growth in earnings to 13.5p and, as part of its progressive dividend policy, a 12 per cent uplift in the interim payout to 2.8p. For the full year, broker Numis expects RWS to declare a total dividend of 11.65p for a not-to-be-sniffed-at yield of 3.9 per cent.

While it does not have the same cash backing, Anglo-German software testing concern **SQS** **Software Quality Systems** trades on a very high yield of 6.9 per cent – though this is principally as a consequence of a recent profits warning, which dented the share price. As the recession finally hit what had been a near-perfect growth story, the company warned that results for the first half of this year would fall well short of expectations due to clients suspending some projects.

However, the Cologne-headquartered company is strongly cash generative, debt-free and continues to provide a crucial service to a raft of blue chips. While the 9.9p dividend SQS shelled out last year is forecast to reduce to 6.4p this year, with 8.1p pencilled in by analysts for the year after, the shares still boast considerable income attractions, with forward yields of 3.8 per cent and 5.6 per cent respectively.

Low yields, large potential

Scottish based and US-focused hospitals software company **Craneware**, though its yield is significantly lower, is very well placed and worth keeping on the radar. Cash rich, with some $20.8 million (£12.6 million) on its balance sheet at the end of the 2008 financial year, this profitable AIM counter continues to churn out cash and, rather than stockpile it, paid out 3.1p per share in dividends last year.

Growth has continued into 2009 – management recently proposed a 1.8p interim dividend payment – and broker KBC Peel Hunt predicts a pay-out of 2.6p for this year. At the current 234p, the shares, therefore, yield a prospective 1.3 per cent, lower than some peers but a higher rate of return than any savings account. Craneware has 95 per cent contractual cover over its forecast revenues and, given its excellent earnings momentum, the shares are worth buying.

Offering a similarly modest yield but poised for big things is immune system testing specialist **Immunodiagnostic Systems** (IDS). For a while now it has paid a small dividend, signaling the business's cash-generative nature as well as its willingness to reward shareholders.

IDS recently launched a new automated testing product, iSYS, which is being rolled out in the US later this year. During the year to last March, the company enjoyed 80 per cent growth in the US with its older manual product, even though the US is the most automated market globally. Chief executive Roger Duggan says the launch of iSYS in the US will mean it is able to compete on 'many more large contracts'. Thanks to this, the company has good

Produced by Durrants under licence from the NLA (newspapers), CLA (magazines) or other copyright owner. No further copying (including printing of digital cuttings), digital reproduction/forwarding of the cutting is permitted except under licence from the copyright owner.

ICIS

Source: Growth Company Investor {Main}
Edition:
Country: UK
Date: Wednesday 1, July 2009
Page: 12,13
Area: 921 sq. cm
Circulation: Pub Stmt 5000 Monthly
BRAD info: page rate £2,800.00, scc rate £0.00
Phone: 020 7250 7010
Keyword: Norcon plc

NORCON PLC

reason to be optimistic and Duggan believes it will set the company on 'a quantum leap into the market'.

Based on the 1.7p dividend for March 2009 – still up for grabs until the shares go 'ex-dividend' towards the end of July – IDS offers a yield of less than one per cent, although the company is really a growth stock and trades at a discount to peers on the present price-to-earnings ratio of sub-ten times.

Having sold subsidiary business directory Ufindus to BT for £20 million, managed hosting provider **Iomart** decided to follow Williams's line of thought and recently joined the dividend list. Although the payment is small, at 0.3p, the company is growing fast and could make further acquisitions. Its intention to maintain this policy, with broker Daniel Stewart forecasting a similar payment next year as well, is a nice bonus for holders of the stock.

Plumb property offers

Though presently out of favour in the post-credit crunch world, the property sector currently contains some tremendous value and yield morsels for investors. One lowly stock now offering a plum yield is care homes provider **Public Service Properties Investment** (PSPI).

Decidedly unloved, with its shares having fallen from 100p to 52p in the past year, PSPI now sits on very attractive historic and forecast yields of 11.5 per cent. Mostly protected from the vagaries of the property market, this UK- and Germany-focused player recently outperformed market expectations for calendar 2008, during which it enjoyed sales of £16.8 million and delivered adjusted earnings of 7.1p, more than covering a 6p dividend. The valuation of its portfolio by Colliers CRE puts the company's net assets at 155p per share, with its £157 million of net debt perhaps explaining the discrepancy with the market's lowly valuation. The shares deserve a much better rating and the super yield should win some support.

Another somewhat mistreated property pick is **Hansteen**, which recently increased its full-year dividend in a move indicating management's optimistic view of future prospects. The company has also demonstrated the esteem in which it is held by the City, having attracting over £200.8 million of institutional backing in order to capitalise on cut-priced UK industrial property.

Joint chief executives Morgan Jones and Ian Watson have drummed up this new money to exploit 'exceptional' opportunities in a UK market they know inside out. At their last company, Ashtenne, the duo proved their canny ability to oversee bumper returns for shareholders before they sold out for £169.7 million.

They are now highly confident of acquiring industrial property on exceptionally favourable terms and have already constructed a UK-based team for the purpose. Predicted to pay 4.3p at the end of the current year, Hansteen shares, now 82p, offer an appealing forecast yield of 4.3 per cent.

Produced by Durrants under licence from the NLA (newspapers), CLA (magazines) or other copyright owner. No further copying (including printing of digital cuttings), digital reproduction/forwarding of the cutting is permitted except under licence from the copyright owner.

Source: Growth Company Investor {Main}
Edition:
Country: UK
Date: Wednesday 1, July 2009
Page: 12,13
Area: 921 sq. cm
Circulation: Pub Stmt 5000 Monthly
BRAD info: page rate £2,800.00, scc rate £0.00
Phone: 020 7250 7010
Keyword: Norcon plc

ICIS

NORCON PLC

AIM income and growth

Company	Share price (p)	Dividend paid (p)	Historic yield	Forecast dividend (p)	Forecast yield
Craneware	234.0	3.1	1.3%	2.6	1.1%
Hansteen	79.5	3.2	4.0%	3.4	4.3%
Immunodiagnostic Systems	245.0	1.7	0.7%	1.7	0.7%
Iomart	31.0	0.3	1.0%	0.3	1.0%
Nationwide Accident Repair	82.5	5.0	6.1%	4.6%	5.5%
Norcon	71.5	5.4	7.6%	5.9	8.3%
NWF	87.0	3.9	4.5%	4.1	4.7%
RWS Holdings	297.0	10.4	3.5%	11.7	3.9%
SQS Software Quality Systems	144.0	9.9	6.9%	5.4	3.8%

Produced by Durrants under licence from the NLA (newspapers), CLA (magazines) or other copyright owner. No further copying (including printing of digital cuttings), digital reproduction/forwarding of the cutting is permitted except under licence from the copyright owner.