

# Unearthing AIM's technology bargains

As of 1 May 2007, no fewer than 281\* technology ventures were traded on AIM, collectively worth £8.6 billion and representing more than eight per cent of the junior market's total value of £106 billion. The average market value of these companies was £36.8 million, with 20

ventures valued at more than £100 million, 34 valued at between £50 million and £100 million and, at the smaller end of the scale, 97 valued at or below £10 million.

After a difficult few years following the brutal market correction at the turn of the millennium, with a paltry 11 technology

new issues joining AIM in 2002, the bull run of the past few years has coincided with new issue resurgence within the tech space. During the year to 1 May 2007, 50 new companies launched onto the market, raising a healthy £362 million in the process, with the average fundraising figure standing at £7.62 million.

11.5 at the current 106.25p after a sell-off related to a minor legal wrangle, the shares offer potential for upgrades.

Just behind these two is ReneSola, the silicon solar wafer expert whose shares surged 582 per cent north to 539p in fewer than nine months on AIM, **Patsystems** is beginning to attract attention under the leadership of chief executive David Webber. The derivatives trading technology business (currently 28p) is starting to deliver excitement for investors and fulfil early promise following a successful turnaround, with profits soaring more than 350 per cent to £1.63 million in 2006 and cash flow from operations up from £840,000 to £2.69 million, enabling the group to announce an inaugural dividend. A wave of recent upbeat announcements has included details of deals with R.S. O'Brien and a significant deal with Man Financial. Even after a strong run, the shares still look great value.

A recent pullback to 301p at **Group NBT** should alert investors. Sales and profits are booming at this domain name manager and web-hosting concern, a dividend-paying technology business whose most recent results for the half-year to December revealed an excellent 81 per cent profits surge to £1.7 million on sales lifted 36 per cent to £8.4 million, with strong organic growth boosted through the acquisition of Exalia in August. Even after using £2 million of its cash reserves to pay for this competitor, cash at the end of December was £4.69 million.

## The fastest-growing

**Tables 5 and 6** chart the fastest-growing tech companies by sales and profits. In terms of sales performance, the leading technology company is **Secure Design KK**, although this Japanese biometrics business's terrific revenue gains were posted from a low base and a shock profits alert has left the share price looking decidedly bombed-out. With regards to profits growth, ReneSola has easily outpaced all peers, while Datatec's acquisition-driven profit improvements of 799 per cent deserve applause and the aforementioned RCG and Patsystems also feature.

## Valuation

Investors looking to unearth value and unloved gems through conventional valuation methods would do well to examine **Tables 7, 8, 9 and 10**, which list the AIM technology counters with the lowest and highest price-to- sales and p/e ratios. Table 7 a veritable who's who of

TECHNOLOGY COMPANIES BY SUB-SECTOR		
Sector	Companies	Average share price performance* (%)
Software & Computer Services	140	39.50
Electronic & Electrical Equipment	61	15.40
Technology Hardware & Equipment	38	10.73
Mobile Telecommunications	16	21.54
Fixed-Line Telecommunications	14	16.90
Automobiles & Parts	10	95.83
Aerospace & Defence	2	106.03

\*as measured since IPO

LARGEST TECHNOLOGY COMPANIES		
Company	Sector	Mkt Cap (£m)
XG Technology	Electronic & Electrical Equipment	914.36
Renesola	Electronic & Electrical Equipment	528.50
Datatec	Software & Computer Services	415.98
PIPEX Communications	Fixed-Line Telecommunications	311.26
Sandvine	Technology Hardware & Equipment	273.89
RC Group	Software & Computer Services	258.98
Inspired Gaming	Software & Computer Services	209.00
Torex Retail	Software & Computer Services	197.97

BEST-PERFORMING SHARES			
Company	Share price (p)	Mkt cap (£m)	Price performance* (%)
IndigoVision	865.00	66.75	2,371.43
RC Group	110.00	258.98	1,000.00
Renesola	539.00	528.50	582.28
PIPEX Communications	13.00	311.26	550.00
Patsystems	28.00	47.00	522.22
First Derivatives	282.50	41.26	465.00
Manpower Software	72.50	35.06	457.69
Armour	89.75	37.35	420.29

\*as measured since IPO

WORST-PERFORMING SHARES			
Company	Share price (p)	Mkt cap (£m)	Price performance* (%)
Bella Media	0.03	0.84	-99.96
Buckland	0.09	0.65	-99.40
Smart Telecom	0.10	1.23	-99.33
Fortfield Investments	1.05	1.46	-98.92
Canisp	0.40	0.42	-98.55
Advance Visual Comms	0.15	0.59	-98.50
ID Data	0.95	10.72	-98.49
Fundamental-e Invmts	0.21	2.29	-97.90

\*as measured since IPO

## A wide remit

For the purposes of our research, *Growth Company Investor* adopted a wide definition of what constitutes a technology company. This includes not only software (which as **Table 1** shows is far and away the dominant activity, accounting for half the entire sector and being the third-best performer) but also electronics and IT hardware ventures, as well as innovative AIM businesses operating at the cutting edge of the aerospace and telecommunications arenas and those deploying highly sophisticated expertise in the automobile sector.

**Table 2** demonstrates warm receptions received for relative newcomers, with the three largest technology firms having joined the market within the last 12 months. **XG Technology**, the Florida-based telecoms developer, has seen its valuation grow from a debut £320 million to £914.4 million on the back of interest in the company's long-distance wireless communications products. The much-fêted **Renesola** sits at number two, while third in our list lies **Datatec**, the South African IT services company that has been pursuing an aggressive acquisition strategy since arriving in London, growing its market capitalisation from £296 million to £416 million.

## The best and the worst

The best-performing technology stock in our survey (see **Table 3**) is digital surveillance systems business **IndigoVision**.

In second place is Hong Kong-based biometrics and RFID security solutions counter **RC Group** (profiled by *Growth Company Investor* at 33.5p in 2005), which had banked gains of exactly 1,000 per cent since its July 2004 float. Results for 2006, announced by chief executive Raymond Chu, showed pre-tax profits powering ahead more than 300 per cent to £19.6 million, tracking a similar sales surge to £62 million, driven by acquisitions and strong organic growth. For the current year, analysts forecast £71.5 million turnover and growth in profits to £22.1 million, giving earnings of 9.2p a share and an improved payout of 0.62p (0.6p). Trading on a prospective p/e ratio of

## Unique research by *Growth Company Investor* and ARM Coporate Finance reveals that the technology sector is in rude health, with the new issues pipeline replenished, valuations restored and a slew of businesses building tangible value for investors

companies to avoid with its ranks littered by struggling enterprises.

Smart Telecom has de-listed, **Elitel Telecom** issued a profit warning this year, while **Flightstore's** plans to exploit the aeroplane-to-ground commerce space have not been as successful as was hoped, leaving the business trading on a paltry, although perhaps justified, price-to-sales ratio of 0.06. The valuations of ventures in Table 8 are based largely on speculation, with the bulk of the businesses in its ranks boasting meagre revenues.

These include **ViaLogy**, which has technology to detect suicide bombers from a distance of 100 metres, **Antonov**, the technology exploitation company that has long beguiled with tales of jam tomorrow and **Ceres**, the highly esteemed fuel cell developer which nonetheless looks highly inflated on a price-to-sales ratio of 1,163.89.

Table 9, illustrating those companies trading on the lowest p/e ratios, is far more interesting, with a number of solid, profitable concerns unjustifiably unloved by the market. **SQS Software Quality Systems** has flagged up strong trading in the current year to December, following a 44 per cent pre-tax profits rise last year to £3.6 million; it boasts good underlying cash flows and income prospects. The market seems to be missing something with the shares in our table trading on a p/e ratio of less than six times.

Industrial batteries and power supply systems group **China Shoto** was trading on a prospective p/e of 7.6 following its share price drift. Another dividend-paying technology business, its valuation seems to have fallen on little else but concerns about the transparency of overseas companies and Chinese ones in particular. Operationally and financially, however, things are progressing well, with 2006 figures revealing a 134 per cent sales surge to £66.45 million and a near 30 per cent net profits rise to £4 million.

### Portrait picture much improved

Last but by no means least is **Portrait Software** (formerly the deeply troubled AIT Group), rated at a lowly p/e in our tables, although the picture has since then shifted in terms of earnings and share price. Portrait is forging a new high-growth future in the field of customer interaction optimisation software under astute chief executive Nick Randall, and market awareness of its superior prospects has gathered pace.

Recent results for the year to March from the group – which essentially helps clients deliver far better customer service, improve revenues and profits, and develop greater loyalty with their customers – demonstrated decent 24 per cent revenue growth to £14.4 million, with licence revenues increasing by 89 per cent to £3.4

million. Normalised pre-tax profits trebled to £600,000 and earnings surged from 0.13p to 0.53p a share for a historic p/e ratio of 41, which drops to 21 on new forecast 2008 earnings of 1.03p.

GCI believes the strength and breadth of Portrait's client base (numbering more than 200 across a slew of sectors) and its partnerships with blue-chip organisations are as yet unappreciated by the stock market. Despite recent strong share price performance, Portrait Software's valuation could have further to go.

Technology Companies  
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\* This feature is an extract from a more comprehensive report entitled **Technology Companies on AIM 2007**. This extended document is divided into three parts:

1. An assessment of all the technology companies that have listed on AIM since its inception and which are still trading on the market (the focus of this feature)
2. An assessment of all the technology companies that have listed on AIM in the last five years – an effective study of the technology landscape after the 'dotcom crash'
3. An assessment of the technology new issues market over the past 12 months

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#### FASTEST-GROWING COMPANIES BY SALES 5

Company	Turnover (£m)	Turnover growth (%)
Secure Design KK	2.24	3,633.33
Blue Star Mobile	3.06	1,124.00
Axeon	2.55	962.50
Renesola	43.78	939.90
Cyan	0.27	800.00
e-pay Asia	9.87	750.43
ACTA Spa	0.05	600.00
Glen Group	3.69	583.33
Clearspeed Technologies	1.94	340.91
RC Group	61.48	297.93

#### LOWEST RATIO OF PRICE TO SALES 7

Company	Market cap (£m)	Turnover (£m)	Price-to-sales ratio
Smart Telecom	1.23	30.58	0.04
Elitel Telecom	6.28	103.63	0.06
Flightstore	0.33	5.25	0.06
Feedback	0.76	7.64	0.10
Netb2b2	0.67	6.59	0.10
Consolidated Communications	0.72	6.68	0.11
Fayewood	53.66	458.27	0.12
Teleunit SPA	8.83	67.23	0.13
Surface Technology Systems	2.55	19.16	0.13
ASBISC Enterprises	72.00	504.40	0.14

#### LOWEST P/E RATIO 9

Company	Forecast p/e ratio
Spectrum Interactive	3.1
Minorplanet Systems	4.3
SQS	5.7
At Communications	6.1
China Shoto	7.6
Prologic	7.7
Portrait Software	7.9
Interactive World	8.6
Fonebak	9.1
Dewhurst	9.5

#### FASTEST-GROWING COMPANIES BY PROFITS 6

Company	Pre-tax profits (£m)	Profits growth (%)
Renesola	11.40	3,575.81
Datatec	31.90	799.72
OneClickHR	0.28	600.00
Focus Solutions	0.13	550.00
Gladstone	0.93	389.47
Spectrum Interactive	1.77	378.38
Patsystems	1.62	350.00
RC Group	19.63	307.26
Dillistone	0.63	270.59
Holders Technology	0.93	244.44

#### HIGHEST RATIO OF PRICE TO SALES 8

Company	Market cap (£m)	Turnover (£m)	Price-to-sales ratio
ViaLogy	40.31	0.01	4,031.26
Antonov	40.27	0.03	1,342.20
Ceres Power	128.03	0.11	1,163.89
ACTA Spa	39.08	0.05	833.19
Amteus	30.80	0.04	770.00
Mobestar	15.18	0.02	759.03
Microemissive Displays	19.85	0.03	661.76
Vycon	29.49	0.10	310.41
InTechnology	54.12	0.18	300.64
Future Internet Technologies	145.55	0.61	238.60

#### HIGHEST P/E RATIO 10

Company	Forecast p/e ratio
Amino Technologies	87.4
Lombard Risk Mngt	80.0
Redstone	70.0
Eg Solutions	63.4
i-mate	54.2
Strategic Thought	44.5
System C Healthcare	40.0
Centurion Electronics	39.4
Indigovision	36.6
Pure Wafer	33.0