

## Welcome to Objective's Small & Mid-Cap Review

### Key Points

Equity markets appear to have continued some of the themes from 2005 into 2006. We believe that chasing yesterday's stories may not be the most rewarding strategy for investors especially when some of the risk factors appear increasingly to be structural (global terror and pension deficits)

But investors appear already to have priced in significant levels of risk premium. We believe that that is healthy but much of it is secular and we do not expect any early return to the bond/ equity relationship that obtained until the end of the 1990s.

Nonetheless there is scope at least for continued equity out performance against bonds. Significant absolute gains may be more modest until risk factors abate convincingly.

Our special focus this month is on the pensions problem in the UK and its potential to turn yesterday's consumers into today's forced savers. We estimate that up to 10% of annual retail sales could be at risk from any such transfer.

Volatility in reported corporate profits may be increased by attempts to force greater disclosure of actuarial assumptions in calculating liabilities and from the attempts to get companies to reduce their deficits within 10 years.

Such deficits for the FTSE100 companies alone have been estimated at £70bn. We argue that the search is on for bond surrogates in the equity market. For investors, pensions are "tomorrow's black".

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### Market Commentary

Equity investors can be forgiven for thinking that 2006 started with many of the themes from 2005 still intact. During the first quarter the FTSE All World index rose by some 7% (USD) and emerging markets by almost double that. Oil and Gas and Basic Materials continued to drive the sector league tables globally.

However, subtle but significant changes were also apparent: Oil & Gas eased slightly as Industrials gained strength and Financials slipped down the league table. Elsewhere Consumer Goods, Utilities and Telecommunications all made relative gains. What at first sight appears to be a continuation of the cyclical themes from 2005 has given way modestly to allow a better showing from more defensive counters.

In fact the movement in the relative position of sectors is that which would be expected during a period of flattening yield curves. And that perhaps was the most dramatic feature of the first quarter. Not only in itself but also in the source of the flattening; the rise of yields at the long end of the curve – enough for the 5% level to be breached in the USA for the first time since the early part of this century.

The proximate cause has been the rising fear of inflation. With oil prices again at record levels it seems only a matter of time before inflation finally bursts the dam of consumer intolerance that has so characterised the last fifteen years or so.

While the fear is real enough, the evidence that inflation is set to make a dramatic return remains mixed at best. Economic growth is robust enough but shows no signs of accelerating, in the developed western economies at least. US and UK housing markets have softened from their 2005 peaks, US and UK consumers show little appetite to increase further their household debt to GDP ratios much beyond the 80% levels reached in recent months and mortgage equity withdrawal as a proportion of after tax income, at a little over 6% in the UK, is some way below the frenzied peaks that approached 10% a year ago.

In short the US and UK consumers appear to be showing just the first hint of indigestion after the debt feast of the last few years – i.e., no new fire power with which to accelerate domestic demand growth. On paper at least the Eurozone consumer could pick up the pace with a similar debt ratio of only around 50% but with over an 8% unemployment rate (significantly higher in France and Germany) it is hard to believe that there will be any rush for “zero interest” balance transfers to new credit cards.

Against that background it is hard to see the case made by some commentators (and taken up recently by some of the futures markets) for yet higher interest rates. Energy and several other costs have been rising significantly for some time now

#### About Objective Capital:

Objective is a leading UK provider of objective corporate research.

We offer investors two levels of insight – a regular survey of the complete small and mid-cap segment, highlighting those stocks where attention should be focused, and our detailed institutional-quality, sponsored research coverage. As always, our research doesn't offer trading recommendations or advice but an objective up-to-date assessment of the prospects, and risks, of the companies we cover.

While the companies we cover sponsor our research, it is always written on behalf of our readers. It is of the essence of our research that it be **independent** — that is opinions, estimates and valuations be solely those of Objective's analyst; **objective** — that is based upon verifiable data; and **transparent** — that is based upon explicit assumptions.

Our research complies with all FSA recommendations as may arise out of CP172 and CP176, i.e., that it be independent of any broking or trading interests; and CP205, i.e., that it comply with standards for objectivity.

with still little more than target levels of CPI to show for it. In the UK for example there is an argument that official measures of inflation do not reflect the existing squeeze on household incomes.

Using 2005 weights, the cost of gas represents only some 1.2% of the CPI “basket”. A 20% increase in consumer gas prices would add only 24bp to CPI.

Clothing and Footwear, by contrast, weighs in at over 6% of the basket. A 20% decrease here would chop 126bp off the inflation measure. Items associated with the capital cost of house purchase and council tax (local residence tax) are not included.

In other words, where there is an efficient market in which consumers freely and fully can exercise their choice, the result is dis-inflationary at least, deflationary at worst. Where they cannot, the unsurprising conclusion is the same as for any inefficient, monopoly or oligopoly – price increases and a consequent squeeze on disposable income.

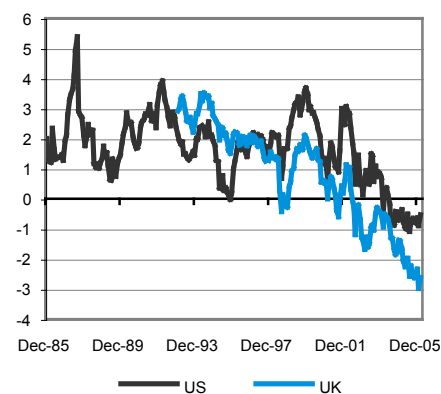
The good news in this for investors is that, in our opinion, fears for the interest rate cycle may prove to be exaggerated. We continue to expect the current cycle to be benign with the top of the US cycle already in sight and still the possibility, although reduced, of a further rate cut in the UK. The trigger for the latter could be any cut in the Bank of England’s currently robust GDP expectations.

There is a second element of long term encouragement for investors. As a community, they seem already to have priced significant levels of risk. Gold prices remain high and, more fundamentally, one measure of the relationship between equities and bonds, the Earnings Yield Gap (EYG), is still around 20-year lows. With some important caveat, that suggests the potential for equities to outperform bonds.

The accompanying chart traces the progress of the EYG in the USA and the UK over the last 20 and 13 years respectively. The EYG is one of the key indicators used by the Fed in assessing the existence of any “irrational exuberance” in the equity markets. It expresses the difference between 10-year bond yields and the EPS yield (the reciprocal of the PER). Typically a wide gap suggests optimism on the part of equity investors and the possibility of a low demanded risk premium. Conversely a low gap suggests a high risk premium, i.e., a lot of risk already price into the market.

The current levels are negative in both markets for the first time in the period of the chart and indeed for many years before even that. Some readers will remember the existence of such a relationship between bond yields and dividend yields in the UK – when the equity culture was in its infancy and investors demanded a dividend yield premium for holding an untested asset.

UK & US earnings gap yield



Today's bulls might argue for a return of the (US) EYG to the range of 1% to 2% which obtained for the period of the chart until the early part of the new millennium. From today's levels in the US that might imply earnings yields falling by some 2.5% - a potential doubling in equity prices!

However, before stampeding up the hill of perception it is worth rehearsing some of the risk components that appear to be priced in. The collapse in EYG which took it below the earlier range, started with the bursting of the tech bubble and the corporate governance scandals with which the new millennium was ushered in. Not so much "new paradigm" as "same old story" but one which severely dented the perception of equities as a moderate-risk asset class. Structural moves since then to improve corporate governance have laid the foundations for a restoration of confidence but that will come only with time.

The collapse in EYG coincides also with the rise in new and ever more tragic levels of global terrorism. In the purely simplistic terms of financial markets, the perfectly rational response to that is to increase the demanded risk premium. Given the situation today in Iraq and Iran, with the Hamas victory in Palestine and the recent Israeli elections, and with the deadly reaction to the publication of the Danish cartoons, we believe that this component of the risk premium will be long duration to the point of being considered structural. When and who will signal the end of terror?

The collapse in the EYG has also been driven by falling bond yields especially further out on the yield curve. Equity bulls will have to argue that there is no bubble or distortion in the bond market before they can successfully argue for a return to the halcyon days of the mid 1990s.

Evidently such argument is difficult and particularly in the presence of apparently structural pension deficits. The resumption of Treasury 30-year note auctions and the earlier auction of UK 50-year index-linked gilts saw demand push yields down to 4.5% and to below 0.5% respectively. That said the recent rise in bond yields suggests that such concerns have abated although we expect demand to remain firm.

The final component in the story is inflation. Given that most measures have remained remarkably benign, it may be argued that the bond market has already weathered the worst of fuel price rises and such housing cost increases as feed into official calculations (see below). But the flip side of a reluctant consumer (don't forget the debt problem) is that input cost inflation from energy and other sources is more likely to be felt in profit margins rather than at the long end of the bond curve.

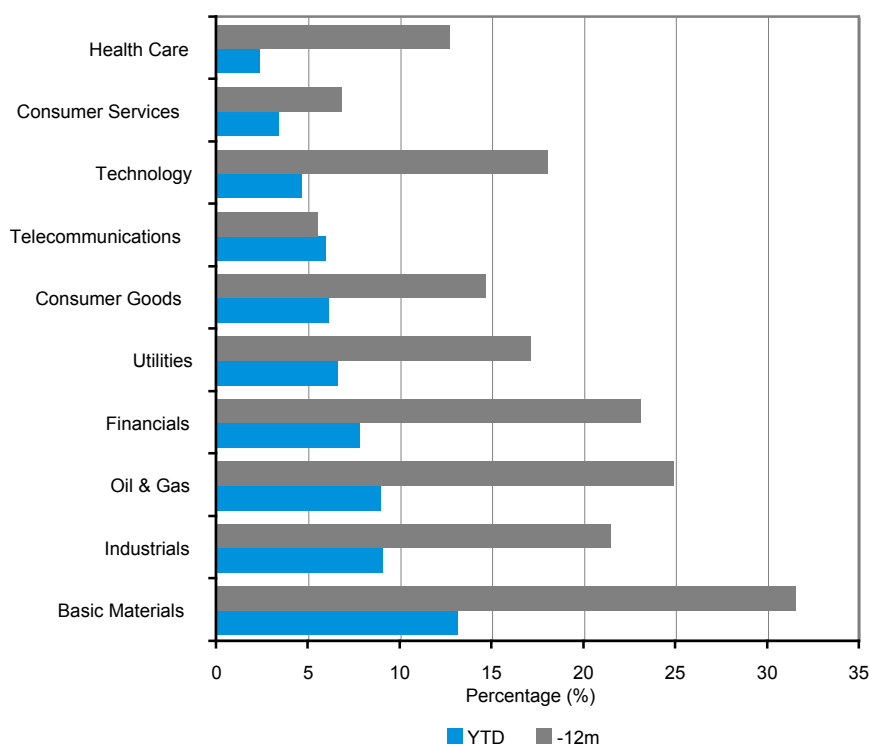
In conclusion we believe that chasing only yesterday's stories is unlikely to be a winning strategy for equity investors for the balance of 2006. With growth rates slowing (but not collapsing) the best of the demand-pull for the Oil and Mining sectors appears to be over although continuing risk especially in the Middle East argues against cutting positions dramatically. With that should come also a less pronounced bias in the performance of emerging markets as against those of the developed economies.

We expect inflationary pressures and thus the interest rate cycle to remain benign. UK rates are expected to be flat, possibly lower, from here while those in the USA and Eurozone are expected to be flat to modestly higher. Monetary conditions in Japan are expected to tighten further albeit technically rather than through rate hikes for the time being.

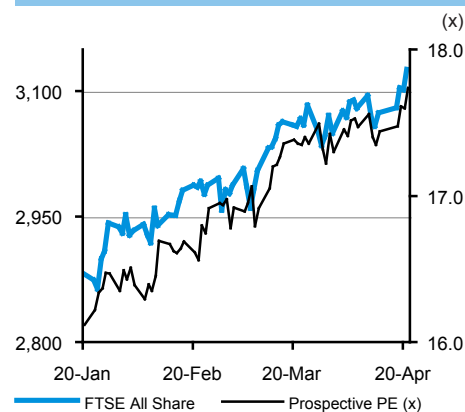
All else being equal that is likely to put further downward pressure on sterling and give some relief to UK exporters especially to territories where domestic demand is rising.

But the main conclusion for us is that, having seen bond yields back up significantly from recent lows, modest inflation and pension deficits are likely to keep demand firm both for bonds and for bond-surrogates (income stocks) in the equity markets – note the relative strength of the Utility sector globally so far this year.

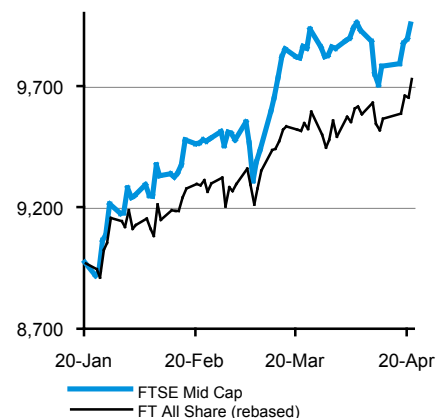
### FTSE All World: Sectoral Performance



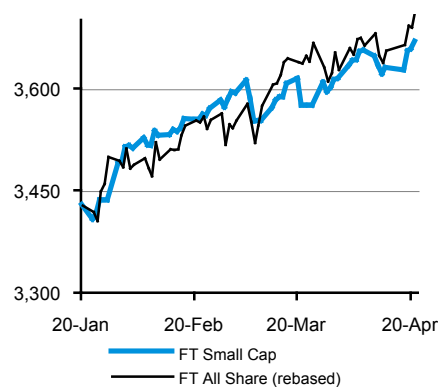
### FTSE last 3 months



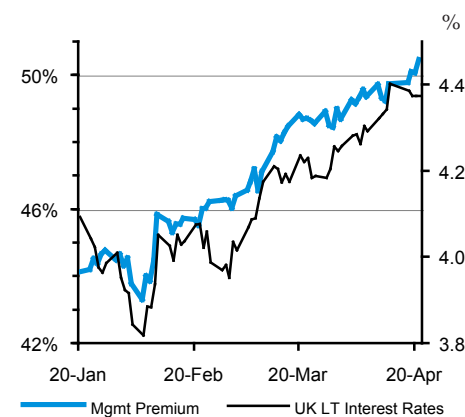
### FT Mid Cap last 3 months



### FT Small Cap last 3 months

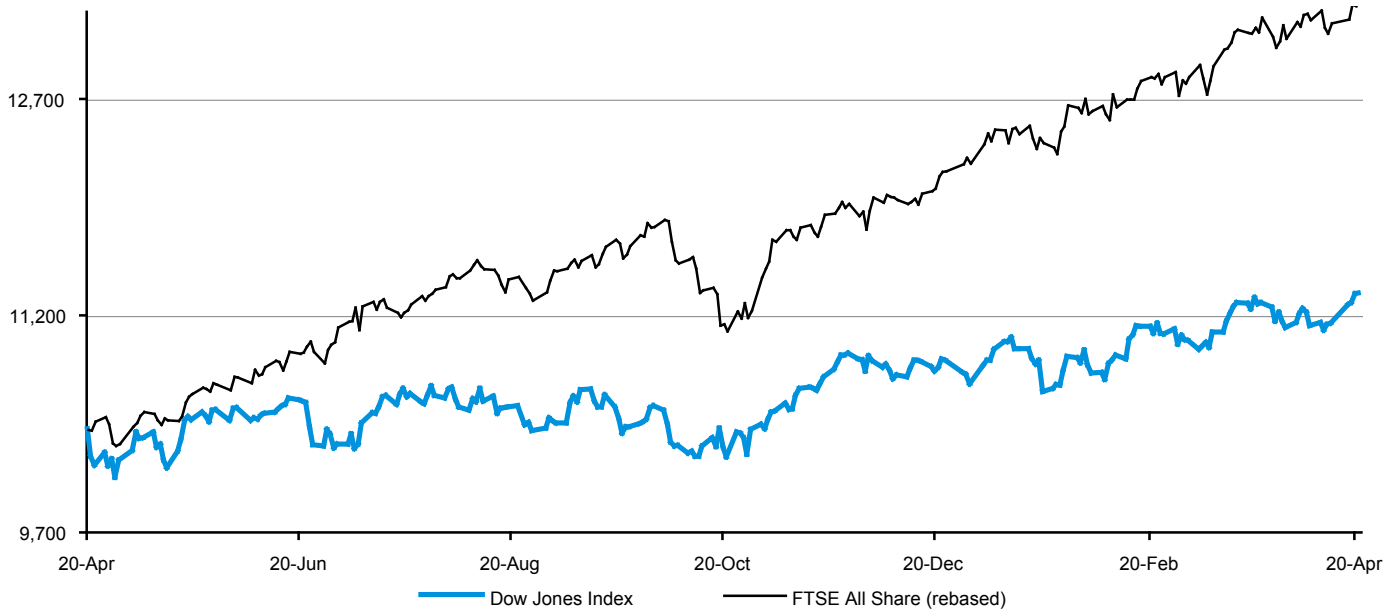


### Management premium in the FTSE<sup>1</sup>

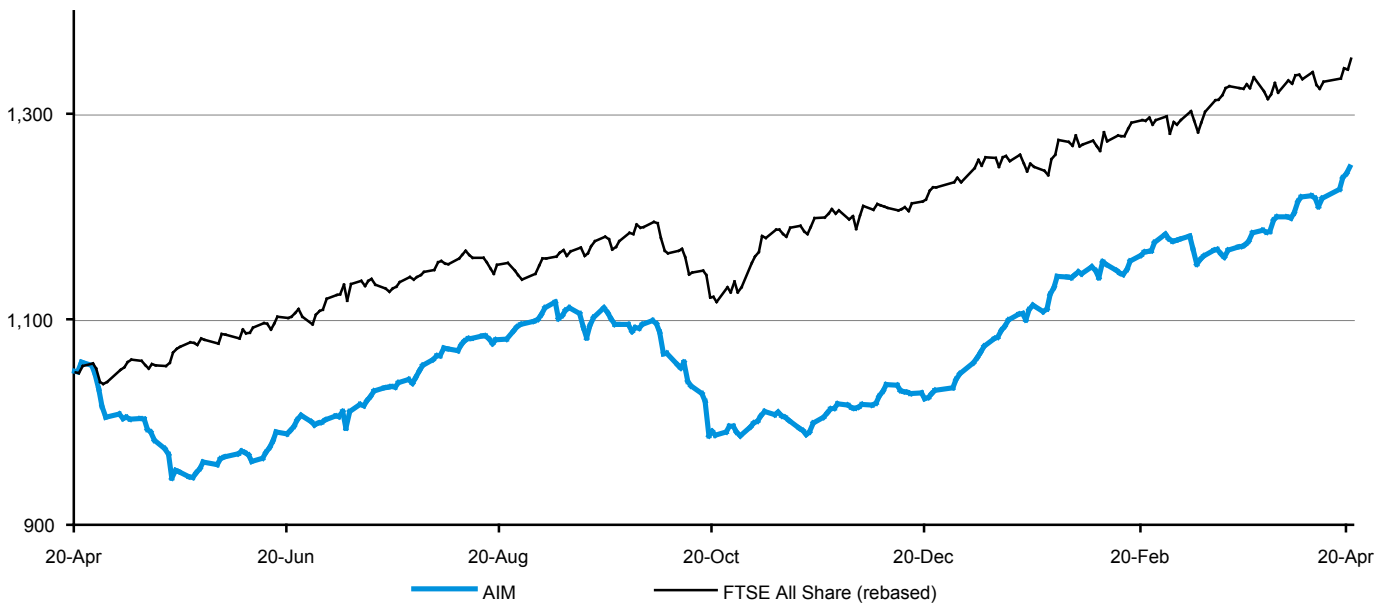


<sup>1</sup> management premium is the % of the FTSE that the market is paying for the "value" management is expected to generate. See page 10 for details.

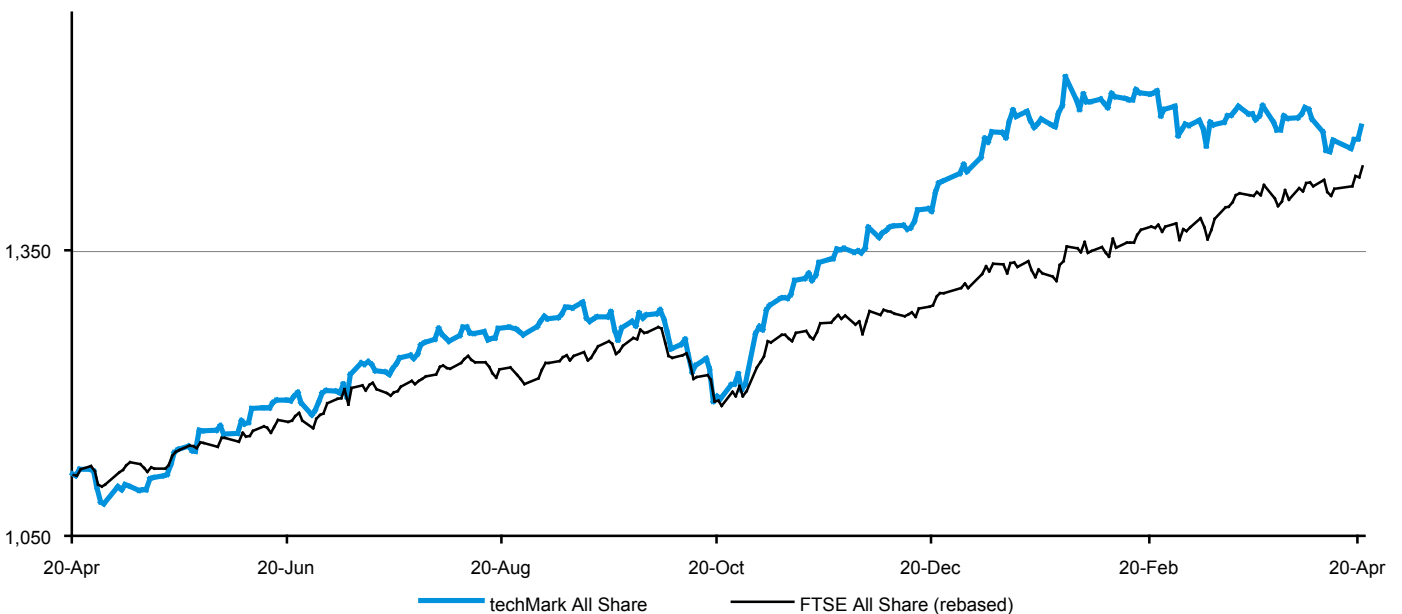
### Dow Jones v. FTSE All Shares (rebased), 12-mth



### AIM Index v. FTSE All Shares (rebased), 12-mth



### techMark Index v. FTSE All Shares (rebased), 12-mth



## Recently announced flotations

Company	Market	Type	Mkt Cap/ Amnt Raise	Issue Date	Description
Radiancy	Main	Placing	£65.0m / £30.0m	2006	Cosmetic treatment company
IVT Wireless Technology	Aim	Placing	TBC / £2.0m	2006	Bluetooth products
Plasma Warehouse Group	Aim	Public Offer	£2.0m / TBC	2006	Specialist audio visual systems
Gameaccount	Aim	Placing	£100.0m / £10.0m	2006	Internet gaming
Talvivaara Mining	Aim	Placing	TBC / € 100.0m	Oct / Nov	Finnish miner
IGM	Aim	Placing	TBC / \$25.0m	H1	Far East mobile phones
Euphony	TBA	Introduction	TBC / n/a	May	Telecom services
Avisis	Ofex	Introduction	TBC / n/a	May	Digital screen technology
European Islamic Invest. Bank	Aim	Placing	£300.0m / £200.0m	11-May-2006	Investment bank
Horizonte Minerals	Aim	Placing	£8.9m / £2.3m	08-May-2006	Natural resource exploration
Turbotec Products	Aim	Placing	TBC / £4.8m	08-May-2006	Engineer
Atelis	Aim	Placing	TBC / TBC	08-May-2006	VoIP software
Interactive World	Aim	Placing	TBC / £2.0m	08-May-2006	Digital media content
Mariana Resources	Aim	Placing	TBC / TBC	05-May-2006	South American minerals
H & T Group	Aim	Placing	TBC / TBC	05-May-2006	Pawnbroker
Cape Lambert Iron Ore	Aim	Introduction	TBC / n/a	04-May-2006	Mining and exploration
Debenhams	Main	Placing	£1.85bn / £400.0m	04-May-2006	Department store
Njahili Resources	Aim	Placing	TBC / TBC	04-May-2006	Miner
Velti	Aim	Placing	TBC / £10.0m	03-May-2006	Mobile telecoms services
Allied Gold	Aim	Introduction	TBC / n/a	02-May-2006	Gold exploration
Anca C	Ofex	Placing	£2.2m / £0.2m	02-May-2006	Fashion retailer
Worthington Nicholls	Aim	Placing	£35.0m / £20.0m	April	Air conditioning systems
European Equity Tranche Inc.	Aim	Placing	€ 100.0m / € 100.0m	April	Investment company
Windsave	Aim	Placing	£50.0m / TBC	2006	Wind turbines
Cumberland Place Investments	Ofex	Introduction	TBC / n/a	28-Apr-2006	Investment company
Bioganix	Aim	Placing	TBC / TBC	28-Apr-2006	Waste material processing
One Charter	Ofex	Placing	£3.1m / £0.9m	28-Apr-2006	Aircraft services
Baltic Oil Terminals	Aim	Placing	TBC / TBC	27-Apr-2006	Oil infrastructure projects
Oxford Catalysts	Aim	Placing	TBC / £15.0m	26-Apr-2006	Clean fuel technology
Wharf Resources	Ofex	Introduction	TBC / n/a	26-Apr-2006	Oil & gas
Mobestar	Aim	Introduction	£38.3m / n/a	25-Apr-2006	Mobile phone entertainment
Camco International	Aim	Placing	£83.1m / £24.9m	25-Apr-2006	Carbon credits
Babble.net	Ofex	Introduction	TBC / n/a	25-Apr-2006	Internet telephony
Puma Brandenburg	Aim	Placing	£185.0m / £185.0m	16-Mar-2006	German real estate
Eyebright	Aim	Placing	£11.5m / £5.0m	TBC	Elective day surgery
Ashingo	Aim	Placing / Offer	TBC / TBC	TBC	Digital media advertising
Carlton Clubs	Aim	Placing	£40.0m / TBC	TBC	Bingo club owner
Isle of Man Int. Broadcasting	Aim	Placing	£75.0m / £13.0m	TBC	Radio broadcaster
Planet Conservatories	Aim	Placing	£70.0m / £10.0m	TBC	Bespoke conservatories
Miras Imaging	Aim	Public Offer	£6.4m / £1.0m	TBC	Medical devices specialist
TNX Television	Aim	Placing	£50.0m / £15.0m	TBC	Commuter train television
BCM Capital	Aim	Introduction	TBC / n/a	TBC	Construction
Barracuda	Aim		£300.0m / TBC	TBC	Pubs and bars
Brinkley Mining	Aim	Placing	TBC / TBC	TBC	Uranium Mining
Tinci Holdings Ltd.	Aim	Placing	TBC / TBC	TBC	Chinese environmental engineering
Dominion Petroleum	Aim	Placing	TBC / TBC	TBC	Tanzanian oil & gas
Petrosearch International	Aim	Introduction	TBC / n/a	TBC	Resource sector investments
Nyati Resources	Aim	Placing	£1.7m / £1.1m	TBC	Oil and gas exploration
AM2	Aim	Placing	£15.0m / £15.0m	TBC	Investment company
Medco Energi	Main	Placing	£800.0m / £214.0m	TBC	Indonesian oil and gas company
Talia Technology	Aim	Placing	£30.0m / £10.0m	TBC	Eye screening equipment
Afcan Mining Corporation	Aim	Placing	TBC / £10.0m	TBC	China-focused miner
First Croatia Properties	Aim	Placing	£46.5m / £46.5m	TBC	Commercial property
Lamont Property	Aim	Placing	TBC / TBC	TBC	Commercial property
Concept Group	Aim	Placing	TBC / £6.0m	TBC	Manufacturing consultancy
D-Pharm	Aim	Placing	£15.0m / TBC	TBC	Israeli biotech
Templin Airport Corp.	Aim	Placing	TBC / £13.9m	TBC	Airport development

## Sector in Focus

### Pensions: tomorrow's black for investors

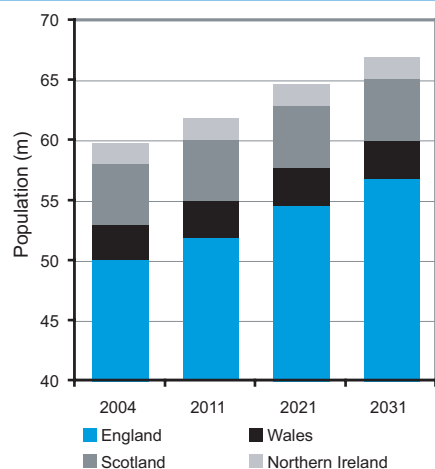
The subject of pensions is no longer confined to back rooms filled with dusty old books. It is, to borrow a phrase from the fashion industry, “tomorrow’s black” – the holy grail for investors. It carries the hopes of the “baby boomers” that they may be able comfortably, and early, to retire in a dis-inflationary, low yield environment.

Recent history is not on their side. From closed schemes to cut dividends and inverted yield curves the pension problem is having a profound effect. It may even distort the macro framework within which policy makers are setting policy for whole economies. In this section we examine briefly some of the issues. Our broad conclusion is that yesterday’s consumers are becoming today’s forced savers.

A secular shift from consumption to savings has been debated since at least the mid-1990s when arguments in favour of possible UK membership of European Monetary Union were countered with, among others, observations of Europe’s much higher levels of unfunded pension liabilities as a proportion of GDP. Estimates of over 100% of GDP for France, Italy and Germany were a commonplace against a similar calculation of less than 20% for the UK.

The subsequent consumption boom was not a direct consequence of that but there was a certain smug satisfaction at home that the UK was OK and future pensioners pretty well provided for. But any smugness reckoned without the changing demographics and falling bond yields. The first increased the time for which pensions would have to be paid and narrowed the pool of workers available to pay it. The second increased the value of the liability. It is that triple whammy which is now hitting individuals, companies and whole economies.

### UK population projections



Source: ONS

The UK’s Office of National Statistics recently published its latest population growth projections. See the accompanying chart to the left. The UK’s population is expected to grow by some 7m, more than 10%, over the next 25 years with the bulk of that increase arising in England. The increase is expected to be fuelled by a combination of a net positive birth rate and by net positive immigration.

Over the same period the proportion aged over 65 is expected to grow from 16% to 23% as the baby boomers retire, an increase from some 9.6m recently to around 15m. But, and here’s the rub, the number in work is expected to grow only from 32m to 40m. In other words that the number of workers per pensioner is expected to fall from 3.33 to 2.6 – an increase in the burden per worker of some 27%.

Government, unfunded (pay as you go) type, schemes have been largely restructured although there is still more work to do in significant areas such as raising the state retirement age and harmonising it for men and women. But the more recent and unwelcome surprise has come from company pension schemes. As

changes to accounting standards and best practise force more disclosure of these to shareholders so too appears to be the incidence of scheme closure to new entrants, freezing for existing members and, in some cases dividend cuts and threats to the status of a “going concern”. Those are a far cry from the days not so long ago (think late 1980s) when company pension funds were in surplus, companies awarding themselves contribution holidays (not the employees usually) and, in some cases, legitimately writing parts of the surplus back to the P&L.

Today the CBI warns that proposed new rules and guidance on how quickly companies should dispose of their deficits could force the closure of up to one in five companies. The proposals suggest a period of some 10 years to clear deficits estimated at £70bn for the FTSE100 companies alone. Even those numbers may be underestimated depending on the assumptions made by scheme trustees as to the life-span of scheme members. Underestimating that would underestimate the deficit; and it is this assumption that investor groups are additionally pushing to be disclosed.

Assuming that the task was achievable it would not end there. To those numbers should be added the effect of the demographic changes. The ONS has estimated that annual contributions from all sources to all types of occupational pension scheme grew from some £37bn in 1996 to £69bn in 2004. Of that, employee and personal contributions grew from £14bn to £21bn (+50%; about 5% annually) and employer contributions grew from £22bn to £48bn, over 10% annually.

But the end of that period coincides with the calculation of 3.33 workers per retiree. Making a gross simplification, if that ratio today were the 2.6 estimated for 2031, and if the structure of payments was similar to that of today (as between employee and employer contributions) that suggests an additional 27% of contributions – taking the total to £88bn annually. If those contributions were instead split 50:50 between employees and employers (not 30:70 as now) that would imply consumers increasing their pension contributions from £21bn annually to £44bn: an extra £23bn to be sucked out of consumption annually.

In 2005 UK retail sales totalled some £249bn (ONS est), up only 1% on 2004 – the lowest annual increase since the Second World War. An extra £23bn going into pensions would represent at least a 10% transfer – annually! The National Association of Pension Funds (NAPF) estimates the total value of UK occupational pension schemes at around £600bn. The £23bn we estimate as potentially being sucked from retail spending would increase amounts into NAPF monitored schemes by some 27%.

Little wonder in our conclusion that yesterday’s consumers become today’s forced savers. In a low yield environment that means, in our opinion, more attention focused on income stocks as surrogates for bonds. Pensions are tomorrow’s black – for investors.

## Company Survey

### From the Model

The Objective Capital model works to identify possible examples of mispriced stocks at both ends of the scale. We try to identify: stocks that have been unduly beaten down by mildly adverse corporate developments; those whose price action may not have fully reflected positive developments; and those whose price may be well ahead of the performance justified by good news, or slow to discount the bad.

In this section of the company comments we attempt to isolate those stocks that fall towards the extreme ends of the distribution of the model's results. We then look in more detail – in a formalised way – at the reasons for their being priced as they are. Considerations for selecting the companies to highlight are standard valuation criteria including PSR, prospective PE relative to earnings growth, ROE, price to cash flow, prospective yield and margins.

We also particularly filter stocks for analyst coverage, preferring those stocks that rank as lower risk and where analyst coverage is thin or non-existent, on the basis that it is here that the scope for mispricing is greatest.

We then select the best three or four stocks on these criteria as a distillation of the model's results for this month. Where appropriate we provide information on broker forecasts and recommendations, using consensus numbers and recommendations where possible. We leave readers to judge how appropriate these recommendations may be.

### How do we “watch” the whole market?

In such a large and diverse group of stocks as the small and mid-cap segment, every investor needs a way of directing their research effort. Because the key to any company is the quality of its management, we focus on an objective assessment of what the market currently pays for the management's ability and scope to improve the value of their company.

Using consensus estimates we can approximate what investors believe they are paying for management's “value add”. Changes in this level tell us when the market's view on the management or its situation has changed – and on which company's our attention needs to be focused.

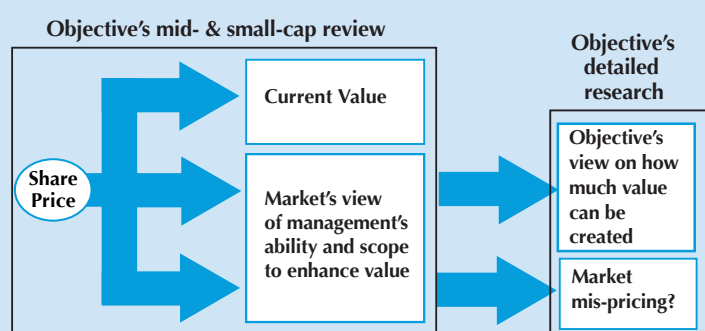
Our detailed company research answers the question of whether the change is justified or if what the market currently pays misses the real value management can add.

### Not a recommendation – but a relative pricing tool

We aim to help our readers navigate the mid- and small-cap segment. Our screening tool is based on the same rigorous framework of risk and return that our detailed objective research uses.

When tracked over time, this model allows us to derive the market's expectation of the increase in value of business on a risk and interest rate adjusted basis. At a glance analysts or investors can see which stocks or sectors are relatively cheap or expensive. We provide the results of our screening tool as a service to our readers.

For more information on the detailed methodology of our screening tool or the interpretation of its results please contact us at +44 (0)870 080 2965.



### What we are measuring ...

Management's Ability and Scope:

- to extract lasting improvements in asset and operating efficiency
- to enhance value through synergies from acquisitions, etc
- to enhance value through barriers to entry
- changes in the environment (e.g., de-regulation)
- the value of timing differences between capex and depreciation, tax and other mis-matches

## This Month's Companies to Watch

**Name (EPIC):** Parkwood Holdings (PKW)

**Sector:** Support services

**Basic business:** The company is involved in managing parks and open spaces for local authorities, the management of leisure facilities and arboriculture, and in the provision of an agency service to supply medical personnel to hospitals and nursing homes. It also provides non-emergency transport facilities for patients.

**Reason for potential mispricing:** Muted reaction to better than expected results. After a surge in the price immediately following the announcement of results, the shares have settled back to around 9% up. At both the pre-tax and earnings level, the results announced on March 13 were better than forecast. Pre-tax profit reached £2.1m compared to an expected consensus outturn of around £1.6m, and earnings per share emerged at 6.8p versus an expected 5.3p.

The company is optimistic about prospects for 2006, having recently closed on a large new leisure contract and acquired a waste recycling and horticulture business to expand its 'green' offering. The company comments that 'prospects for 2006 and beyond are good... we are looking to continue the long-term programme of initiatives which we expect to improve returns for shareholders.'

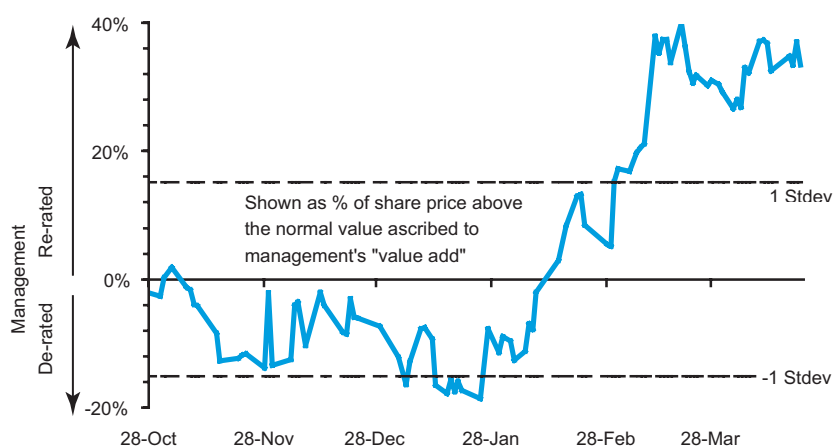
**Value criteria:** Even after the recent rise, market capitalisation is around £15m versus historic revenue of around £77m, expected to reach £100m in 2006. Return on capital is around 19% and after tax ROE in excess of 50%. Operating cash flow last year was in the region of £4.6m, although this was largely depleted by high capital spend. Gearing was, however, substantially reduced. All of this puts the group on low multiples to sales, earnings and cash flow. If margins are maintained, pre-tax of £2.75m looks feasible, suggesting earnings of 8.9p on a similar tax charge, a prospect multiple of 8.5 times.

**Analyst coverage:** Evolution Securities is the only broker to cover the stock. It is not currently providing any 'live' forecasts on Parkwood.

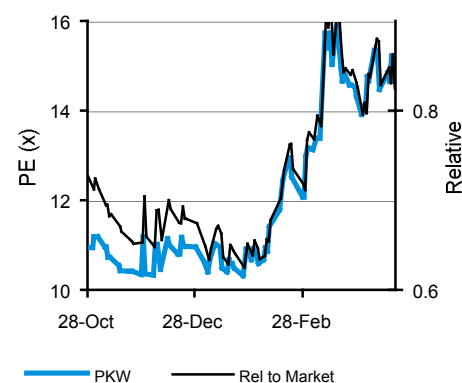
**More information:** [www.parkwood-holdings.co.uk](http://www.parkwood-holdings.co.uk)

**Next results:** Interim – mid-September

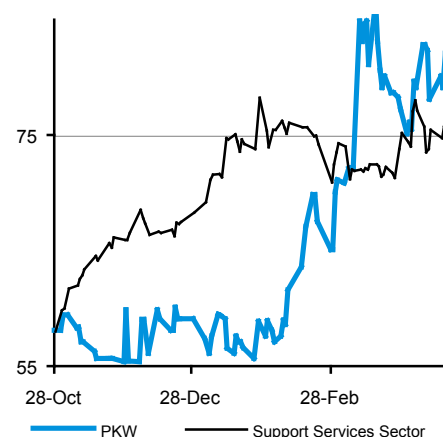
### Portion of PKW share price attributed to "management value add"



### PKW PE & PE relative



### PKW v. Support services sector



**Name (EPIC):** St. Modwen Properties (SMP)

**Sector:** Real estate

**Basic business:** The company is a property investor and developer, specialising in town centre regeneration and the redevelopment of brownfield sites and heritage restoration projects. Around 60% of profits come from rental income and the remainder from development projects.

**Reason for potential mispricing:** The updraft in property company prices since the Budget misreads the company's main focus. Many property company share prices have risen sharply since the Budget clarified the forthcoming regime for Real Estate Investment Trusts. Given its focus on development and its use of rental income to provide cash flow for development opportunities, it looks unlikely that St Modwen will convert to REIT status in 2007. Hence the possibility of sharply increased dividend payout looks wide of the mark.

Recent announcements relating the group's participation in the consortium bidding for the redevelopment of RAF Northolt, and its possible redevelopment of Silverstone, while significant, have only modest share price implications.

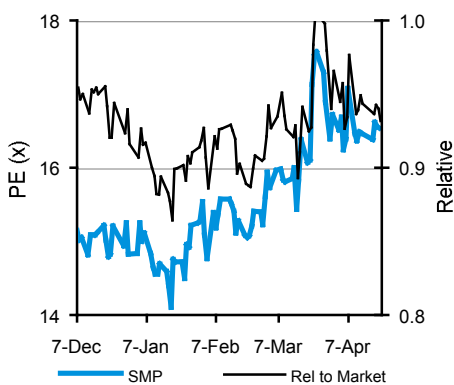
**Value criteria:** St Modwen looks expensive on most criteria. On an earnings basis it sells at 16.7 times consensus estimates for 2006 but at an 85% premium to NAV. Return on equity is 10.5%, better than many property companies, but less than most genuine growth stocks.

**Analyst coverage:** Two analysts have published forecasts on the company: Panmure Gordon and Merrill Lynch. Both currently have the stock on a neutral rating.

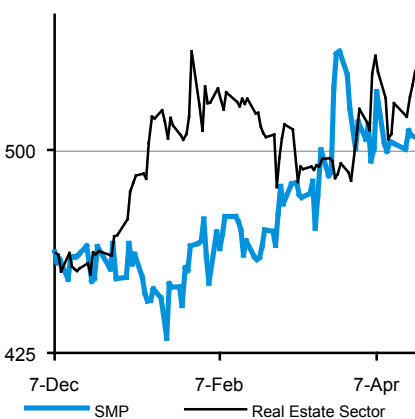
**More information:** [www.stmodwen.co.uk](http://www.stmodwen.co.uk)

**Next results:** Interim – mid-July

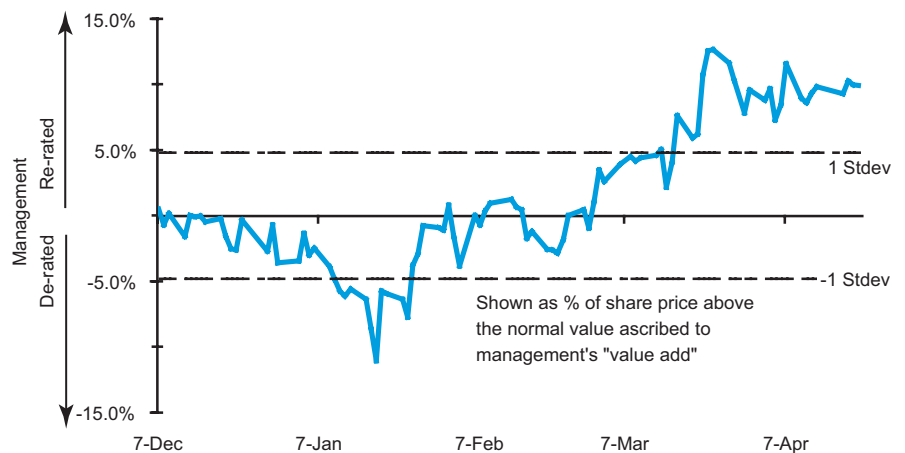
**SMP PE & PE relative**



**SMP v. Real estate sector**



**Portion of SMP share price attributed to "management value add"**



**Name (EPIC):** Vislink (VLK)

**Sector:** Technology hardware & equipment

**Basic business:** The group designs and manufactures microwave radio and satellite transmission equipment for broadcast quality TV, video and data applications. This accounts for four fifths of profits. The remainder derives from integrated CCTV security systems for the marine and oil industries.

**Reason for potential mispricing:** Modest price rise after significantly better than expected results. The shares have risen around 12% in the past month. Results show pre-tax profits of £6.4m versus expectations of a fraction over £6m. Earnings per share were 3.3p, versus estimates of 2.9p. While normally this might have been a price reaction in proportion to the degree to which expectations were exceeded, the statement accompanying the figures was particularly optimistic, noting that: current trading was 'significantly ahead of last year and [with] a strong order book the outlook is very encouraging.' The year also saw strong cash generation with a swing from net debt of £2.35m to net cash of £2.16m.

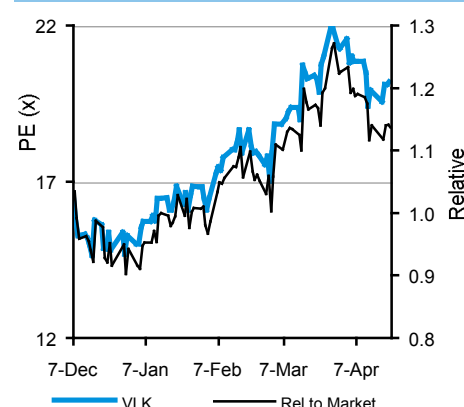
**Value criteria:** Vislink sells on an historic price to sales ratio of around 0.9 times, and around 11 times operating cash flow. Return on capital is 21% and after tax return on equity just short of 10%. Prior to the recent results, broker forecasts were in the region of 3.54p for the current year. Investec Securities, the company's broker, is now expecting pre-tax of £8.8m (previously £8.33m) and earnings per share of 4.2p, an upward revision of around 19%. This puts the stock on a prospective multiple in the low 'teens'.

**Analyst coverage:** Two firms cover the stock: Investec (the company's broker) and the Irish firm Goodbody.

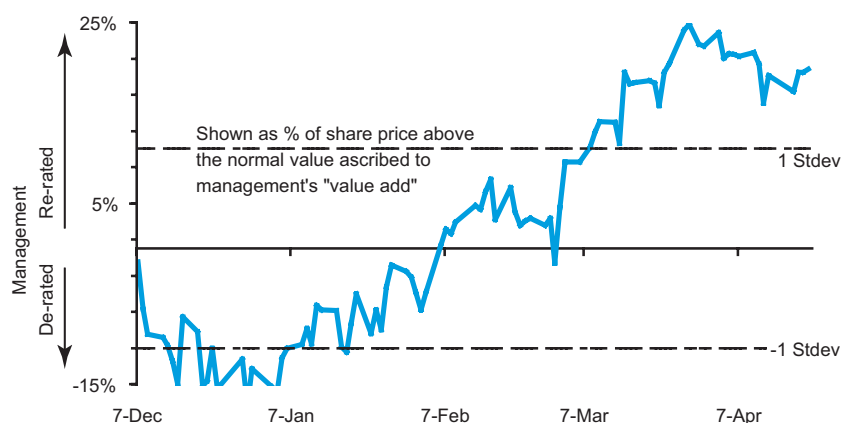
**More information:** [www.vislink.co.uk](http://www.vislink.co.uk)

**Next results:** Interim – early September

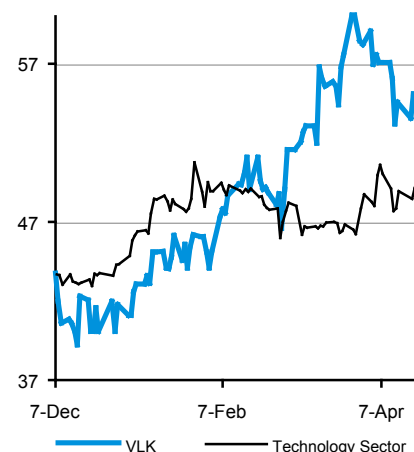
#### VLK PE & PE relative



#### Portion of VLK share price attributed to "management value add"



#### VLK v. Technology sector



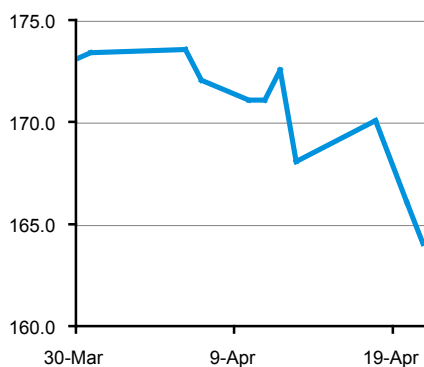
## Press speculation of possible flotations

Company	Market	Type	Mkt Cap/ Amnt Raise	Issue Date	Description
Pendragon Medical Tech.	Aim	Placing	£68.0m / TBC	2006	Glucose monitoring device maker
Euclidian	TBA		£125.0m / TBC	2006	Fully integrated insurance group
Merlin Petroleum	Aim	Placing	£7.8m / £6.0m	2006	Australian oil explorer
CMC Group	Main	Placing	£750.0m / TBC	2006	Online spread-betting
Hogg Robinson	Main	Placing	£700.0m / TBC	2006	Business travel
Standard Life	Main	Placing	£5bn / £1bn	July	Mutual life insurer
African Arabian Petroleum	Main	Placing	£600.0m / TBC	2006	Oil business
The Capital Pub Company	Aim	Placing	£20.0m / £10.0m	2006	Traditional pubs
Match Day Media	Aim	Placing	TBC / £10.0m	2006	Stadium advertising
Argent Energy	Aim	Placing	TBC / £35.0m	2006	Renewable energy
Vue Entertainment	Main	Placing	£400.0m / TBC	2006	Cinema operator
Trident	Aim	Placing	£100.0m / £30.0m	2006	Internet gambling
Go Lower	Aim	Placing	TBC / TBC	2006	Health snacks
Ministry of Sound	Main		£100.0m / TBC	TBC	Dance club and leisure brand
Amtico	TBA	Placing	£150.0m / £20.0m	TBC	Floor tiles specialist
Altodigital	Main		£400.0m / TBC	TBC	Internet services
Zeus Technology	Main	Placing	£150.0m / £15.0m	TBC	Internet software
Elateral	Main	Placing	£90.0m / £30.0m	TBC	Software developer
ACG Holdings	Aim	Public Offer	£1.2m / TBC	TBC	Security software developer
GasForce	Main		TBC / TBC	TBC	British Gas service arm
Unicorn Entertainment	Main	Placing	£100.0m / TBC	TBC	Management company
Cox & Kings	Main		£30.0m / TBC	TBC	Upmarket holiday operator
United Biscuits	Main		TBC / TBC	TBC	Snack food manufacturer
Xchanging	Main		£1,000.0m / TBC	TBC	Support-services group
Altin	Main	Placing	£50.0m / TBC	TBC	Hedge fund investment
Pubmaster Group	Main		TBC / TBC	TBC	Pub operator
Rose Bowl	Aim	Public Offer	£7.5m / £5.0m	TBC	Sport and entertainment centre operator
IAC Group	Aim	Placing	£40.0m / £15.0m	TBC	TV finance and development company
Proquote	Main	Placing	£50.0m / £5.0m	TBC	Internet-broking information service
IntroNet	Main		TBC / TBC	TBC	Edinburgh software company
Affinitas Financing	Aim	Placing	£6.0m / £1.0m	TBC	Financial Services
Trucost	Main		£100.0m / £5.0m	TBC	Company rating service
GoldQuest Mining Corp.	TBA	Placing	TBC / £1.0m	TBC	Gold exploration in the Dominican Republic
Mloop	Aim	Placing	£20.0m / TBC	TBC	Online phone exchange
Oxford Natural Products	Aim		£100.0m / TBC	TBC	Natural pharmaceuticals firm
Crown Dilmun	Main		£150.0m / TBC	TBC	Upmarket housebuilder
Intersolar Group	Aim	Placing	£45.0m / £18.0m	TBC	UK solar technology company
Sporting Options	Aim	Placing	£15.0m / £5.0m	TBC	Online betting exchange
Aberdeen Property Invest.	Main		£150.0m / TBC	TBC	Property investment
Virgin Blue	Main		£520.0m / TBC	TBC	Australian airline
Apex Platinum	Aim	Placing	£20.0m / £5.0m	TBC	Platinum exploration
Resourceworks	Aim	Placing	TBC / TBC	TBC	Corporate finance boutique
Intellipower	Aim	Placing	TBC / TBC	TBC	Energy conservation consultancy
CST Medical	Aim	Placing	£6.0m / TBC	TBC	Treatment of female sexual dysfunction
Dunelm	Main		£300.0m / TBC	TBC	Bedding and curtain retailer
Pacific 1899	TBA		£10.0m / £2.0m	TBC	TBC
Arakis	Aim	Placing	£100.0m / £25.0m	TBC	Drug development company
Fertility Medical Equip.	Aim	Placing	TBC / £10.0m	TBC	Producer of medical devices
Sual	Main		£2,000.0m / TBC	TBC	Russian aluminium producer
British Mediterranean Airways	TBA		£50.0m / TBC	TBC	British Airline
Jaegar	TBA		TBC / TBC	TBC	Clothing retailer
Motor World	Aim	Placing	£80.0m / TBC	TBC	Car accessories retailer
SSA Global	Main	Placing	£1,650.0m / TBC	TBC	Business Software Company
Links	TBA		£40.0m / TBC	TBC	Jewellery chain
Mango DSP	Aim	Placing	£16.4m / £2.0m	TBC	Israeli technology firm
Fat Face	TBA		£60.0m / TBC	TBC	Ski and surf leisurewear
Kazkommertsbank	TBA		TBC / TBC	TBC	Kazakhstan's largest bank

## Newcomer of the Month

This section analyses a recently listed company from a more qualitative standpoint. Futures issues of Objective's Small & Mid-Cap Review will comment periodically on the progress of these companies

### MRN - price since listing



Price (p)	164
Quote	AIM
Ticker	MRN
Hi-Lo since listing (p)	173.5 - 164
Shares issued (m)	45.3
Market Cap'n (£m)	74.3
Issue price (p)	160
Net Proceeds (£m)	34.3
Advisers and brokers	Brewin Dolphin
Website	www.morson.com

## Morson Group (MRN)

Morson is the leading UK provider of technical contract staff. It supplies 7000 skilled white collar workers to several key industries, including aerospace, defence, nuclear power, pharmaceutical, electricity generation and rail industries. It was established in 1969 by the present chairman, sold to Burns Anderson in 1989 and repurchased from the receivers of that company by the present management team in 1992.

The company's typical placement relates to provision of staff on long-term contracts for major infrastructure projects with customers being major public bodies and blue chip companies. It is, for example, currently involved in supplying personnel for the construction of Heathrow's Terminal 5, the development of the joint strike fighter, rail repairs and upgrades for Network Rail, nuclear decommissioning, and provision of safety staff for London Underground.

Many customers are of long standing, and the company is benefiting from the increasing tendency to outsource non-core functions, and from the tendency for public sector spending to be increasingly directed towards public-private partnerships. The company has a database of around 100,000 skilled contractors, of which 7000 are engaged at any one time.

The company also has a business staff of 400 skilled engineers, providing engineering design and project management expertise. The group's record on contract retention and renewal, and its ability to offer turnkey project management are viewed as major competitive strengths.

Contracts worked on by the group typically last from 2-5 years and have transparent terms and conditions, all of which provides a high degree of earnings visibility.

The company believes that there is strong scope to grow organically within its present business and also for it to grow by acquisition in what is still a highly fragmented area.

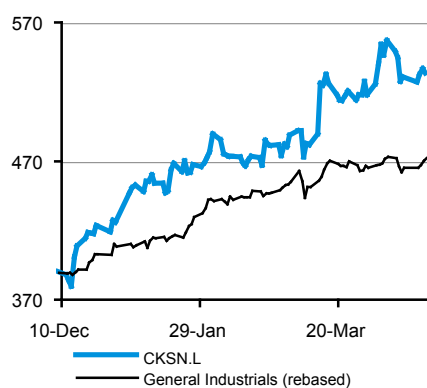
Recent financial data shows revenue growing from around £199m in 2003 to £266m last year during which time profits increased from £5.8m to £6.9m and operating cash flow from £5.7m to £10.1m. The company has recently been awarded major new contracts for BaeSystems, Airbus and British Energy.

The company sells at under ten times historic after tax operating cash flow and at around 30% of annual revenues. The proceeds of the issue will more or less eliminate the company's long-term borrowings. Return on capital employed is around 20%.

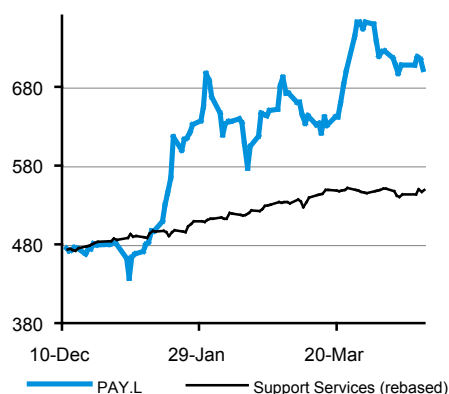
## Companies in the News

The following comments relate to other companies highlighted by the model, and those that we have highlighted in previous issues, where news has emerged in the past month or so.

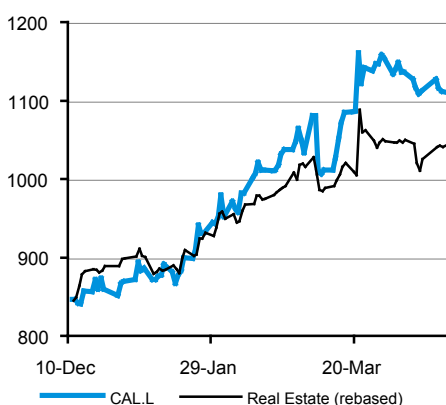
### CKSN v. General industries (rebased)



### PAY v. Support services (rebased)



### CAL v. Real estate (rebased)



### Cookson (CKSN)

Full year results from the electronics and ceramics manufacturer were ahead of market expectations. Pretax profit was £101.9m, up from a restated £85.0m in 2004. On the strength of this Cookson has now resumed dividend payments. Dividends were last paid in October 2001.

The reorganisation and restructuring of the company under the new CEO Nick Salmon appears to have reaped benefits. Substantial progress has been made in achieving the profit margin targets set for Cookson's three divisions and in the sale of non-core assets. Electronics Laminates has been sold for £50m, which has contributed to improved earnings and a reduction in debt.

More information: [www.cooksongroup.co.uk](http://www.cooksongroup.co.uk)

### PayPoint (PAY)

In a recent trading statement PayPoint announced that profits before tax were running ahead of expectations. The company, which operates a network of around 15,000 terminals for the payment of utility and other bills, has seen its share price treble in value over the last 10 months.

So far this year, bill and general payment transactions are up 20% and 28% respectively over the same period last year. Mobile phone related transactions increased by 20%.

Future plans include adding a further 2,000 to 2,500 terminals next year and continued growth in the mobile top-up market.

The company has been awarded a contract by the BBC to issue television licenses, thus ending its 60-year contract with the Post Office.

More information: [www.paypoint.co.uk](http://www.paypoint.co.uk)

### Capital & Regional (CAL)

The property asset manager has announced a 20% rise in full year profits to £43.5m compared with £36.2m in 2004. The three funds under management all outperformed their benchmarks. The company made a 36.6% return on equity which was above its average but down from 39% in 2004 because of changes in stamp duty rules. The CEO said that the company remains confident that it will continue to outperform in the future after what he described as 'a truly great year'.

More information: [www.capreg.com](http://www.capreg.com)

## Cape (CIU)

Trading so far this year has been strong but compensation costs for the long-running asbestosis case have led to a drop in reported profits.

Pre-tax profit was £100,000 against £5.8m the previous year. Turnover for the company, which provides support services such as insulation and scaffolding to the energy industry, was up 9.6% to £261.8m from £238.9m last year.

Cape has sought to address the asbestos problem by setting up a compensation fund. £32m was raised following a rights issue in July and it hopes to secure a further £15m with a new bank facility. Costs of £9.7m incurred in setting up the fund contributed to the operating loss.

More information: [www.capeplc.com](http://www.capeplc.com)

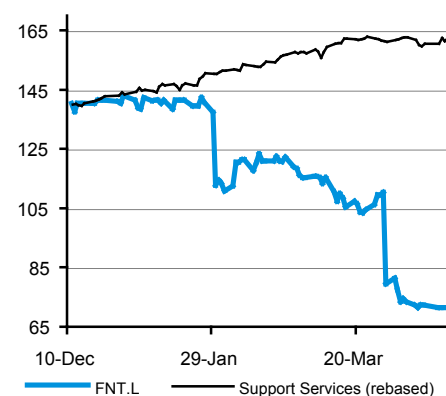
## Fountains (FNT)

Full year results from the environmental services company are expected to be substantially below market expectations, following a trading update in January. The order book stands at £90m but there have been problems relating to a short-term fixed price railway vegetation control contract, to which the company was slow to react. The result of this is a predicted first half loss of £2m.

However, the news is not all bleak. The balance sheet remains strong with over £3m of net cash. The company expects to break even for the remainder of the year.

More information: [www.fountainsplc.com](http://www.fountainsplc.com)

FNT v. Support services (rebased)



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## Recent flotation data

Company	Market	Type	Mkt Cap/Amnt Raised	Issue Date
Burst Media	Aim	Placing	£68.0m / £2.9m	21-Apr-2006
Bow Lane Capital	Aim	Placing	£5.7m / £5.7m	21-Apr-2006
UraMin Inc	Aim	Placing	£119.3m / £34.3m	21-Apr-2006
Lansdowne Oil & Gas	Aim	Placing	£17.7m / £1.6m	21-Apr-2006
Trinity Capital	Aim	Placing	£252.5m / £250.0m	21-Apr-2006
EuroConnXion	Ofex	Introduction	£5.8m / n/a	20-Apr-2006
CAP-XX	Aim	Placing	£45.2m / £17.1m	20-Apr-2006
Deutsche Land	Aim	Placing	£71.8m / £70.0m	20-Apr-2006
Rift Oil	Aim	Placing	£17.3m / £1.1m	19-Apr-2006
The Mission Marketing Group	Aim	Placing	£24.0m / £14.8m	13-Apr-2006
All Star Minerals	Ofex	Placing	£1.0m / £400,00	13-Apr-2006
Maypole Group	Aim	Introduction	£2.3m / n/a	13-Apr-2006
City of London Invest. Group	Aim	Placing	£48.2m / £11.8m	12-Apr-2006
Entelos	Aim	Placing	£44.5m / £11.4m	12-Apr-2006
Ingenious Media Active Capital	Aim	Placing	£150.0m / £150.0m	11-Apr-2006
Aldgate Capital	Aim	Placing	£5.0m / £5.0m	11-Apr-2006
Investment groupIX Europe	Aim	Placing	£38.0m / £10.0m	07-Apr-2006
Renovo Group WI	Main	Placing	£154.0m / £50.0m	07-Apr-2006
2 Way Traffic	Aim	Placing	£107.9m / £24.3m	07-Apr-2006
Everfor Diamonds	Aim	Introduction	£4.0m / n/a	06-Apr-2006
Twenty	Aim	Placing	£9.6m / £8.4m	05-Apr-2006
Pantheon Resources	Aim	Placing	£15.6m / £10.0m	05-Apr-2006
Northern Lynx	Aim	Placing	TBC / TBC	04-Apr-2006
Goldenport	Main	Placing	£158.2m / £60.0m	03-Apr-2006
Ludorum	Aim	Placing	£5.0m / £4.9m	03-Apr-2006
Galantas Gold	Aim	Introduction	£15.1m / n/a	31-Mar-2006
Charlemagne Capital	Aim	Placing	£297.7m / £120.5m	30-Mar-2006
Morson Group	Aim	Placing	£72.6m / £36.0m	30-Mar-2006
Peach Holdings	Aim	Placing	£321.0m / £12.0m	30-Mar-2006
Bulgarian Land Development	Aim	Placing	£25.0m / £23.0m	29-Mar-2006
Cashbox	Aim	Placing	£12.2m / £4.5m	29-Mar-2006
Playtech	Aim	Placing	£548.3m / £34.3m	28-Mar-2006
Northbridge Industrial Services	Aim	Placing	£7.4m / £6.4m	28-Mar-2006
O Twelve Estates	Aim	Placing	£122.5m / £122.5m	27-Mar-2006
Western & Oriental	Aim	Placing	£9.0m / £4.5m	27-Mar-2006

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