objectivecapital

objective corporate research

November 2004

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

*"In a world of regulatory straitjackets, free-thinking and speaking analysts ... are essential to the integrity of the markets. They help keep companies and their share prices honest."*

Edmond Warner, Chief Executive, IFX Group
(*The Guardian*, October 23rd 2004)

This quote appeared last week following two high profile cases in which the independence of analysts employed by traditional "integrated" houses was again called into question. Not by the analysts themselves of course, but by the actions either of their employers or client companies. The potential conflicts of interest are legion but boil down to the commercial pressure that can be brought to bear, not to mention the threat of legal action, against an unwelcome piece of analysis.

Objective Capital was founded precisely to provide investors with an alternative to such potentially compromised research. And to do so in the arena of smaller and mid-cap companies - the feed-stock of any stock market and yet so often ignored by the major integrated houses for reasons of "economies of scale".

Of course the claims made for independent research can only be judged in a suitably open and well-defined environment. Objective Capital is in the vanguard of such development both in the UK and overseas. We believe that investors should expect (and perhaps demand) that an independent research house, to be valid and valuable, be first and foremost uninvolved in the ownership or trading of the subject company's stock or any associated instrument. That it only uses properly qualified and experienced analysts and that it show no bias in the distribution of research to clients.

We look forward to developing our research along such lines and to encouraging and influencing the development of internationally recognised standards for independent research. In so doing we believe that we can play our part in protecting the interests of shareholders and investors.

Andy Hartwill

Research Director
Objective Capital

## Contents



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# Month in Review

## Market Commentary

That old phrase 'it's an ill wind that blows nobody any good' just about applies to the way the markets have moved this past month.

While the rising oil price and fears that it will bring about renewed recession or, worse still, 1970s style 'stagflation' have stopped the major indices in their tracks, it has meant burgeoning work for those corporate brokers bringing junior oil companies to the market. We take a look in more detail at this sector later in this issue.

The main market, as represented by the FTSE100, may have stagnated these past few weeks, but AIM and the other indices of small cap companies continue to forge ahead. The FTSE AIM index rose by just under 5% in the past month and should soon break the magic 1,000 barrier, while the number of companies listed on the market is set to break that magic number too in the very near future.

Gains in the broader small cap indices were more modest. The FTSE Small Cap managed only a 1.7% gain for the month, while its Fledgling equivalent gained 3.2%. The FTSE100 was virtually unchanged on the month at 4,624.

So much for the prediction made recently in the Financial Times that 'hot money moves from small caps'. Granted the FT's article, in the weekend edition of 11th October, was talking more of a pan-European small cap sector and does acknowledge that it is hard to generalise.

But it points to one salient fact about the reason for the success of small caps. Big companies are tainted, however unfairly in many cases, with images of 'fat-cattery', and concerns about issues over accounting and pension fund underfunding. Problems like this tend not to affect newer smaller companies.

Granted there is still the scope for mischief, as there is any field of human endeavour, but for the most part what you see is what you get. There is often a transparency to smaller companies that has considerable appeal to investors.

Management also often has a sizeable personal financial stake in the business, and not one simply acquired through vesting share options, a young company is unlikely to have a legacy pension fund problem, accounting is often simpler, and the business may well have something new to offer that the traditional stock market giants cannot. This does not mean, as investors, that we leave our critical faculties dormant, but it can sometimes mean the best opportunities are easier to identify.

From time to time it does go wrong, as in the internet bubble, but provided we use analytical rigour to assess the choices, and do not compromise on the standards we expect, then finding undervalued quality situations can be easier. To use Jim Slater's famous phrase, 'elephants don't gallop'.

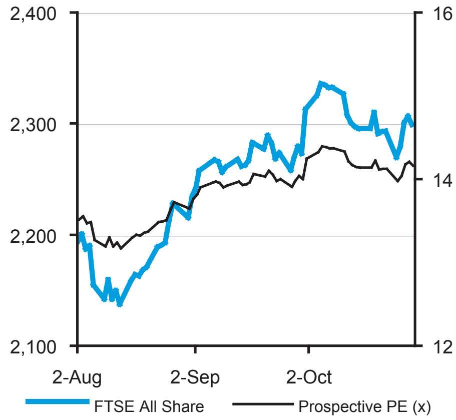
Having said that, the crop of new issues that have floated recently or are about to float has a distinctly speculative air. Perhaps the most tangible and readily understandable business is Hill Station, an upmarket ice cream maker founded by Charles and Gina Hall who, if memory serves, were once employed as City lawyers. The adviser to the company is Daniel Stewart Securities, which itself listed in mid-October.

The other interesting candidate is Jessops, the photographic retailer, which is expected to come to the main market around the time that this issue of Objective Capital goes to press. Hoare Govett is doing the honours for this company, which expected to be capitalised initially at around £180m. Jessops has performed well in recent years thanks to the digital camera revolution. Can it produce further growth from this market? We will be taking a closer look at the prospectus to find out.

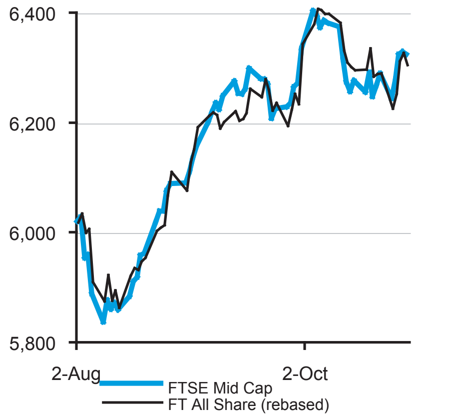
On the oil patch, Egdon Resources, which has interesting onshore acreage in Hampshire and is exploring elsewhere in the country, is expected to come to AIM shortly. As is D1 Oils, which is pursuing a somewhat greener alternative to Egdon's proposed drilling near the South Downs Way. D1 is basically involved in turning vegetable oil into biodiesel, a so-called green fuel.

Optimists hope that this company will not go the way of Alkane Energy, whose rationale, recovering methane from spent coal mines, did not receive the government support it expected for this environmentally-friendly activity, and which then had to re-orientate the focus of its business to the Continent to get a sympathetic ear.

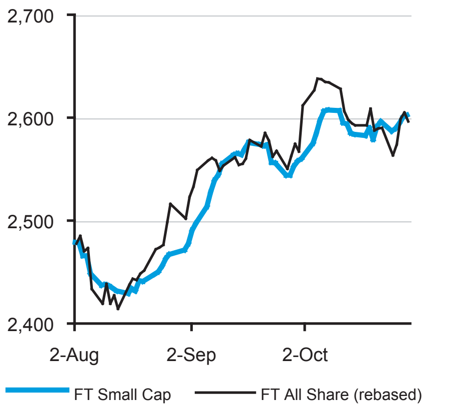
**FTSE last 3 months**



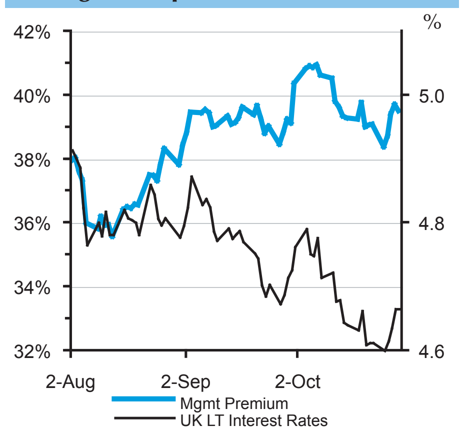

**FT Mid Cap last 3 months**




**FT Small Cap last 3 months**

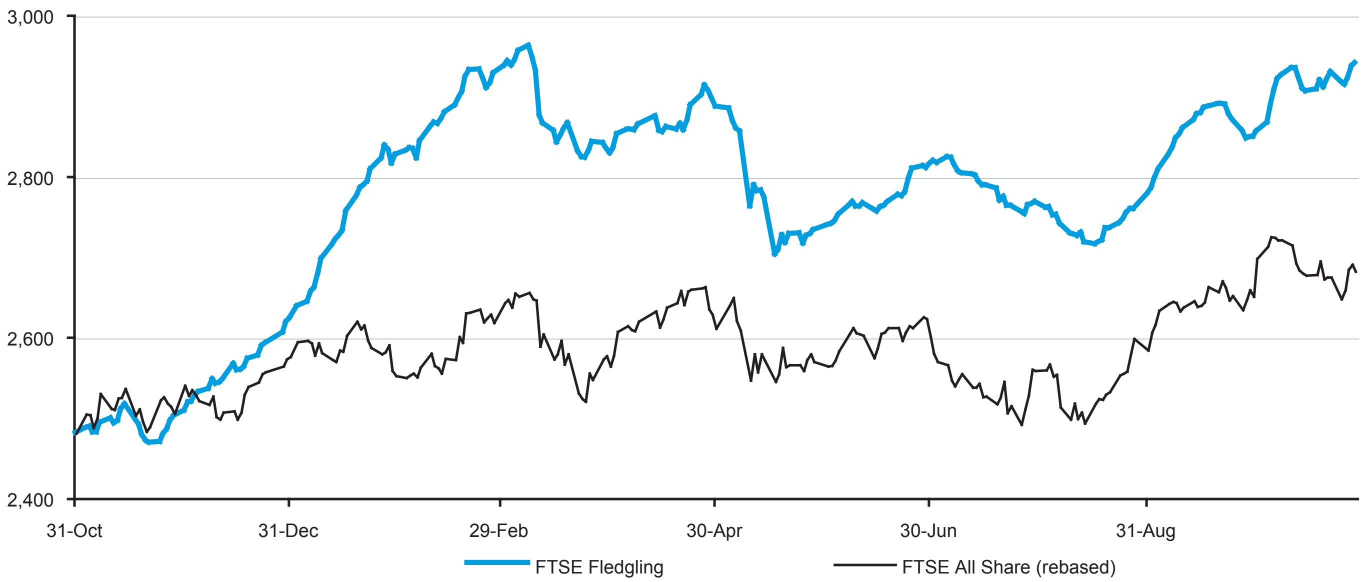



**Management premium in the FTSE[1]**

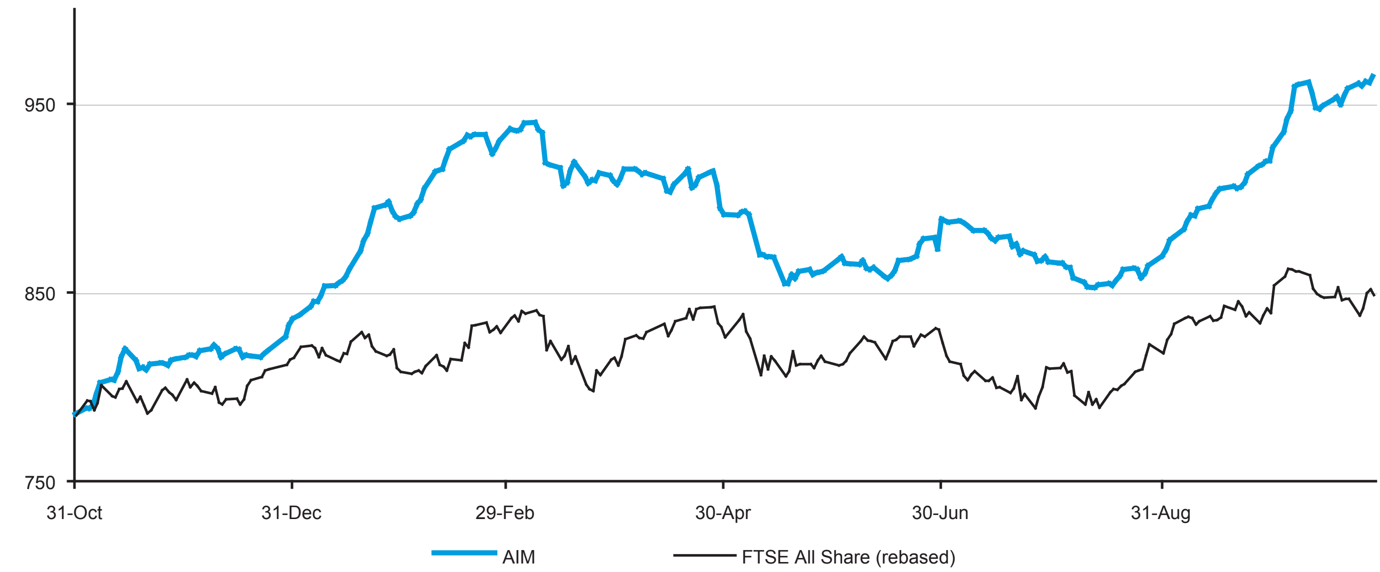



*[1] management premium is the % of the FTSE that the market is paying for the "value" management is expected to generate.* *See page 8 for details.*

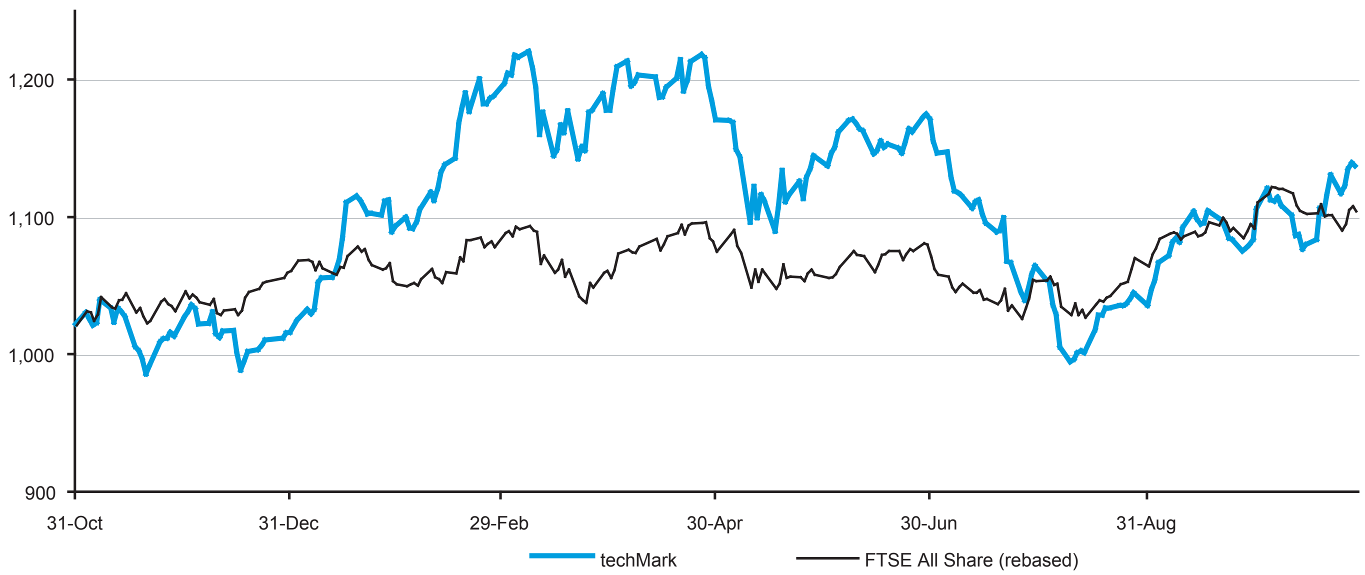
## FTSE Fledging Index v. FTSE All Shares (rebased), 12-mth




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




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

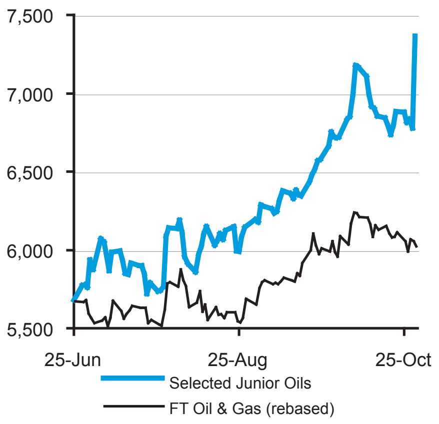


## Recently announced flotations

| Company | Market | Type | Mkt Cap/ Amnt Raise | Issue Date | Description |
|---|---|---|---|---|---|
| MicroEmissive Displays | Aim | Placing | £36m / £17m | 18-Nov-04 | Low power microdisplays |
| African Copper | Aim | | TBC / TBC | 12-Nov-04 | Mineral exploration |
| ClearStream Tech. Group | Aim | Placing | £10m / £4m | 12-Nov-04 | Medical devices |
| Lodore Resources | Aim | | TBC / TBC | 11-Nov-04 | Oil & Gas investments |
| Phoenix IT Group | Main | Placing | £144m / £26m | 11-Nov-04 | Outsourced IT services |
| Emerging UK Investments | Aim | Introduction | TBC / n/a | 10-Nov-04 | Investment company |
| Cello | Aim | Placing | £23m / £15m | 9-Nov-04 | Holding company for marketing and ad firms |
| Mavinwood | Aim | Placing | TBC / £3m | 5-Nov-04 | Support services investment |
| Subsea Resources | Aim | Placing | £20m / £11m | 4-Nov-04 | Commercial salvage |
| Empresaria Group | Aim | Placing | £13m / £2m | 3-Nov-04 | Specialist recruitment services |
| International Medical Devices | Aim | Placing | £1m / TBC | 3-Nov-04 | Investment in health and medical devices sector |
| Principle Capital Holdings | Aim | Placing | £18m / £12m | 3-Nov-04 | Holding company for activist investment group |
| Maxima Holdings | Aim | Placing | £15m / £12m | 1-Nov-04 | Computer software and services |
| Belmore Resources | Ofex | Public offer | £2m / TBC | TBC | Irish mining company |
| Carlton Clubs | Aim | | £40m / TBC | TBC | Bingo club owner |
| Egdon Resources (UK) | Aim | Placing | £11m / £4m | TBC | Oil and gas exploration and production |
| ESPRO Information Tech. | Ofex | Placing | £6m / TBC | TBC | Multi-lingual audio guides |
| Eyebright | Aim | Placing | £12m / £5m | TBC | Elective day surgery |
| Immunodiagnostic Systems | Aim | Placing | TBC / £3m | TBC | Healthcare devices |
| IPT | Aim | Placing | £25m / £5m | TBC | Internet marketing |
| Miras Imaging | Aim | Public offer | £6m / £1m | TBC | Medical devices specialist |
| Physiomics | Aim | Placing | £6m / TBC | TBC | Computer simulation technology |
| Planet Conservatories | Aim | Placing | £70m / £10m | TBC | Bespoke conservatories |
| Radiancy | Main | Placing | £65m / £30m | TBC | Cosmetic treatment company |
| SerVision | Aim | Placing | £12m / £2m | TBC | Israeli wireless technology company |
| Sports Technology Group | Ofex | Introduction | £2m / n/a | TBC | Computerised sports management solutions |
| Trading New Homes | Aim | Placing | £10m / £10m | TBC | Property investment |
| Van Dieman Mines | Aim | Placing | £18m / £2m | TBC | Tin and sapphire mining in Tasmania |

# Sector in Focus

## Select Junior Oils v. FT Oil & Gas




## Junior Oils

With the oil price high and volatile, the oil sector has come to the fore in recent months. But while some of the larger companies are crawled over in some detail by analysts, the smaller junior oil exploration and production stocks have coverage which is very limited or non-existent.

We have attempted to isolate those companies where scope exists for mispricing.

Conventional wisdom has it that junior oil stocks should be valued on a net present value basis, based on the cash flow expected to be produced by their assets, or on price-to-cash flow multiples. Another way is to ratio enterprise value or market capitalisation to proven and probable oil reserves, to arrive at some indication of the implied price the market is putting on each barrel of oil or oil equivalent that the company has in the ground. One can then make a judgement about likely costs of extraction and apply a discount for the political risk involved in the area in which the company is operating.

This is a more fruitful approach, but the problem here is that companies are fairly coy – with some honourable exceptions – of releasing such data. It isn't a problem with some of the better-researched companies. But for all of them untangling the precise interest and quantum of reserves can be difficult. Even then the ascribed value shows substantial variations. In the case of some of the larger companies or those who make it easy to get at reserve figures, the numbers differ appreciably.

Cairn and Hardman's market value of oil in the ground is currently around US$23 per barrel of proven reserves, Premier's around US$6, Tullow's and Burren's in the US$13-14 range, and Petrokazakhstan around US$8. For Meridian, which operates in the relatively safe areas of the US and Australia, the figure is about US$12.50 a barrel.

Reserves that are proven and delineated are one thing, of course: those that are merely probable or forecasts are another. The convention in many parts of the industry, when estimating potential recoverable reserves from a forecast number, is to multiply the forecasted figure by 0.2.

So here is our modus operandi for selecting junior oil stocks. Go to company announcements and the corporate web site and attempt to unearth accurate figures for the company's interest in proven and probable reserves, try and confirm these numbers with recent press comment on the company. Then divide current market capitalisation or enterprise value expressed in US dollars by the reserves figure

**Examples of 'market capitalisation per barrel of oil' calculations**

| Company | Price (£) | Mkt Cap (£m) | Net debt (£m) | EV (£m) | Reserves (m boe) | EV per boe (£) | MC per boe (£) | EV per boe (US$) | MC per boe (US$) | Main area of reserves |
|---|---|---|---|---|---|---|---|---|---|---|
| Cairn Energy | 14.70 | 2337.3 | -17.8 | 2319.5 | 185 | 12.54 | 12.63 | 23.07 | 23.25 | India, Bangladesh |
| Petrokazakhstan | 19.55 | 1575.7 | -50.0 | 1525.7 | 349 | 4.38 | 4.52 | 8.06 | 8.32 | Kazakhstan |
| Tullow Oil | 1.41 | 915.1 | 64.0 | 979.1 | 124 | 7.90 | 7.38 | 14.53 | 13.58 | W.Africa, India, Pakistan, Bangladesh |
| Burren Energy | 4.42 | 605.5 | -17.6 | 587.9 | 91 | 6.46 | 6.65 | 11.89 | 12.24 | Congo Brazzaville |
| Hardman Resources | 0.90 | 581.7 | -140.0 | 441.7 | 45 | 9.81 | 12.93 | 18.06 | 23.78 | Mauritania |
| Paladin | 1.64 | 531.9 | 110.0 | 641.9 | 132 | 4.86 | 4.03 | 8.95 | 7.41 | North Sea, Indonesia, Tunisia, Gabon |
| Premier Oil | 6.30 | 521.6 | -5.3 | 516.3 | 151 | 3.42 | 3.45 | 6.29 | 6.36 | Indonesia, Pakistan, Mauretania |
| Venture | 2.47 | 266.8 | 31.4 | 298.2 | 41 | 7.27 | 6.51 | 13.38 | 11.97 | UK, Trinidad |
| Dragon | 0.51 | 206.2 | -6.0 | 200.2 | 134 | 1.50 | 1.54 | 2.75 | 2.84 | Caspian |
| Petroceltic | 0.17 | 98.0 | -7.9 | 90.1 | 15 | 6.17 | 6.71 | 11.36 | 12.35 | Algeria |

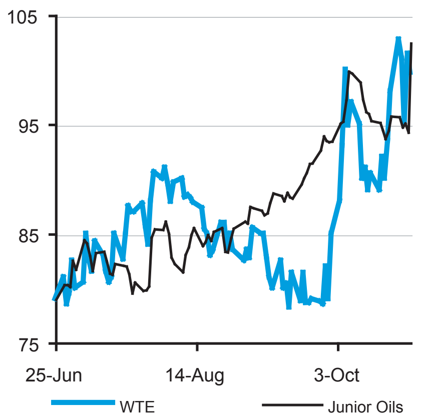
to arrive at a dollar value. Assess this against the value put on other companies operating in a similar area and make a judgement about how these values square up against the political risk involved.

It isn't perfect, but as far as we can judge this represents virtually the only way of easily arriving at an objective assessment of the worth of companies of this sort.

One final word of warning: the prices of junior oil stocks are highly sensitive to items of company news like drilling results and the like. In order to reduce risk it is necessary to achieve a modest degree of diversification.

This is possible either by buying several stocks, or by buying a company like Westmount Energy, which has stakes in several junior oil stocks or, if you can stomach the charges involved, by buying into the recently launched Junior Oils Trust run by the Slater vehicle Sector Investment Managers. We make no comment on the relative worth of these investment choices.

**WTE v. Junior Oils**



# Company Survey

## From the model

Below we explain how the Objective Capital model works to identify possible examples of mispriced stocks at both ends of the scale – stocks that have been unduly beaten down by mildly adverse corporate developments, or stocks whose price action may not have fully reflected positive developments.

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 filter stocks based on relative risk (using a composite of beta and volatility) and 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 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.

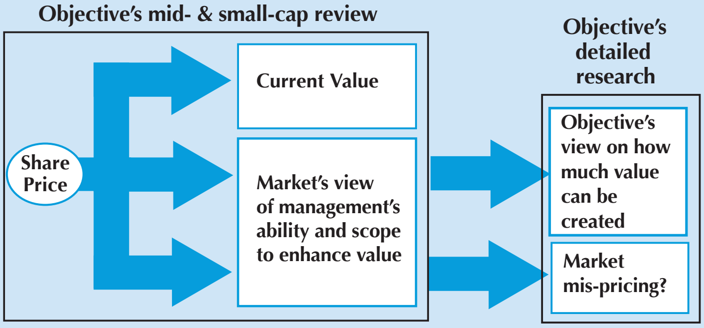
Our detailed company research answers the question of whether the change is justified or if what the market currently pays misses the real value management can add.

### *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

**Name** (EPIC): **Lastminute.com** (LMC)

**Sector**: Personal services

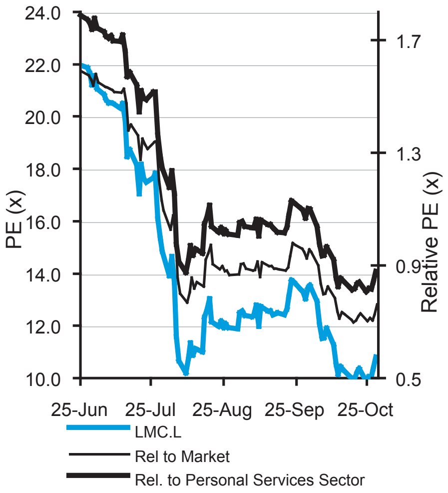
**Basic business**: The provision of last-minute opportunities to acquire airline tickets, hotel rooms, package holidays, car hire, entertainment tickets and the like. Around 50% of turnover derives from the UK and the remainder from elsewhere in the EU, mainly Germany and France.

**Reason for potential mispricing**: Overreaction to trading statement. On 4th October lastminute.com issued a trading statement that suggested that its fourth quarter outturn would be in line with expectations but that EBITDA would be towards the lower end of the previous guidance. The market has taken this somewhat amiss. The shares are down 25% on their price a month ago, a performance not helped by the very recent resignation of Allan Leighton as chairman, in order (so it is rumoured) to pursue Sainsburys.

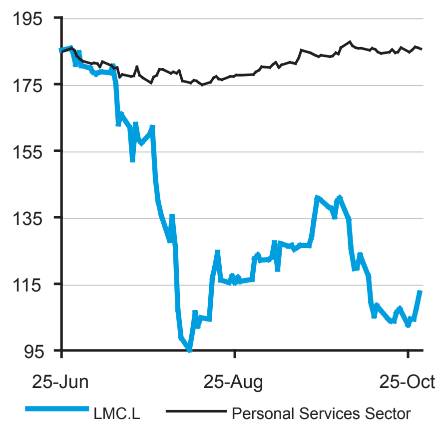
Though Leighton is apparently regarded as something of a father figure at LMC, it is perhaps debateable whether this assertion is anything more than a piece of spin. LMC was one of many commitments that Leighton had after, in his famous phrase, 'going plural' following his departure from ASDA. Lastminute was always identified in the mind of the public with Martha Lane Fox and Brent Hoberman. The point is that it has now progressed to sufficient maturity as a company that a departure like this can be easily weathered.

Less comforting, however, is the intensifying competition in the online travel market set to result by Expedia's acquisition of Ebookers. LMC is showing a commendable grip on its cost base, as evidenced by 350 redundancies announced in August. It is one of the real surviving true icons of the internet bubble, in the UK at least on a par with Amazon and eBay. Iconic status usually means a premium price to be paid by those who want to acquire it. It seems likely that LMC could end up as part of a larger, better-funded entity.

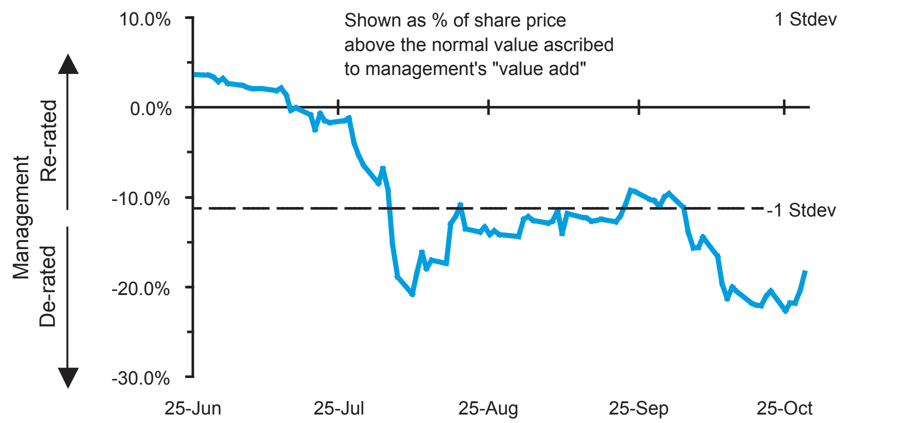
### LMC PE & PE relative




### LMC v. Personal Services Sector




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



**Value criteria**: LMC has tiny margins and a minute return on equity, but a fantastic iconic franchise, In PE multiple terms its prospective PER for the year just ended is in the 40s; for the year to September 2005, the figure is around 10.

**Analyst coverage**: Four analysts cover the stock, a surprisingly small number bearing in mind the prominence the group once enjoyed. Cazenove is the broker. Three of the four brokers publishing forecasts – Numis, Arden Partners, and Evolution – all rate it a Buy. The two most recently published, Arden and Evolution, both appear to have been guided to around 2.9p of earnings for the year just ended and 10.4p for the 2005 year.

**More information**: www.lastminute.com

**Next results**: Prelims - November

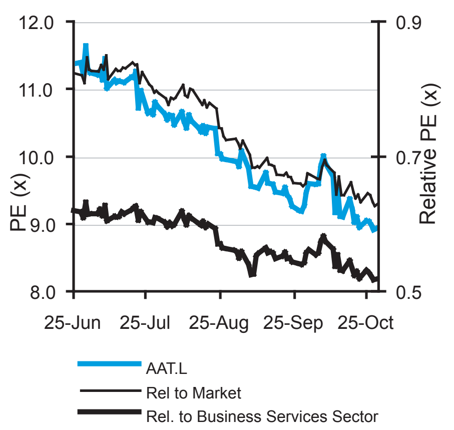
**Name** (EPIC): **AEA Technology** (AAT)

**Sector**: Business services

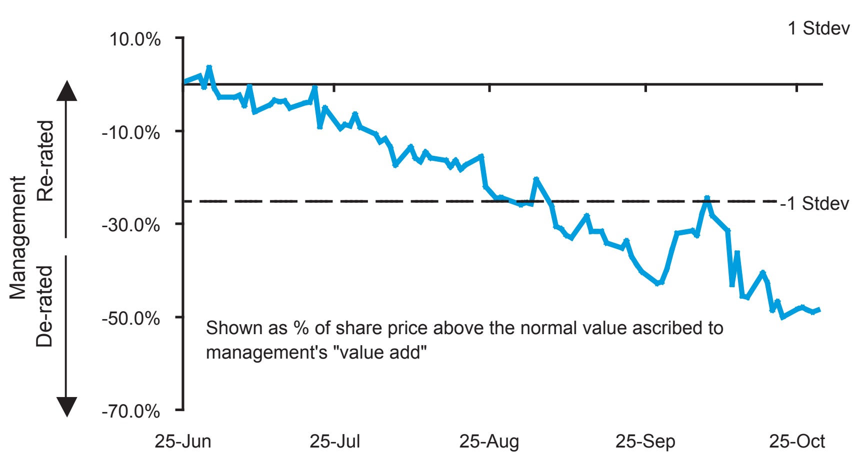
**Basic business**: Supplying advanced safety products for the railway industry in the UK, Western Europe and North America and quality control, environmental and waste management consultancy and chemical safety management response services. The former main nuclear power related businesses are being sold. The company also has a number of non-core development businesses, one of which QSA, which supplies radioactive products for the defence and medical markets, is also up for sale.

**Reason for potential mispricing**: Reaction to delayed sale of QSA. On 8th October the company said that current trading remains in line with expectation with a good first half performance being delivered by its environmental business, which has a record order book and a significant number of new contracts. Rail division performance was affected by the UK government's recent review of contract arrangements.

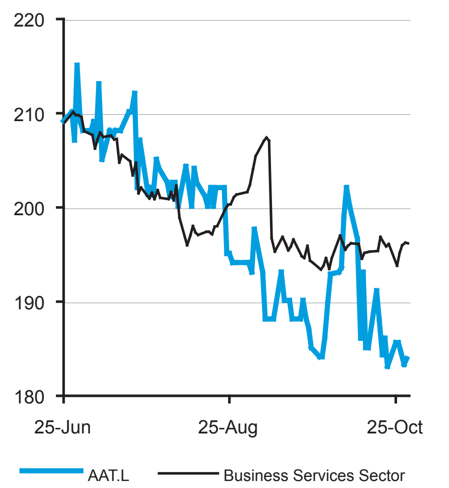
**AAT PE & PE relative**




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




**AAT v. Business Services Sector**



At the same time, however the company announced that offers for the QSA business, which it had planned to sell, had not met expectations and that the business was unlikely to be sold this year. It also said that QSA's performance would be restrained this year by a reduced contribution from a key customer.

Does the delay in the sale of QSA really make a difference to AEA's fundamentals? Logic suggests not. While its contribution may be flat this year, there are no indications of serious problem – merely the normal vicissitudes of ordinary trading.

For the full year analysts have already factored in lower profits, with the consensus estimate suggesting pre-tax profits will drop from £16m to £15.4m in the year to March 2005 before recovering sharply in the following year to around the £23m mark. It is worth remembering perhaps that AEA made pre-tax of £30m in the year to March 2000, before succumbing to two years of losses in 2002 and 2003.

**Value criteria**: The PER reflects the lack of consistency in the record, with a prospective price earnings ratio barely in double figures, despite the company's robust 24% return on equity. Having said that, the company is highly geared with net borrowing approximately three times shareholders' funds on a historic basis. Market capitalisation is approximately 50% of turnover.

**Analyst coverage**: Three analysts cover the group, including Williams de Broe, Aitken Campbell, and Oriel Securities. Cazenove is broker to the company.

**More information**: www.aeat.co.uk
**Next results**: Interims – December 9th

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**Name** (EPIC): **Mondas** (MDS)
**Sector**: Software and computer services (AIM)
**Basic business**: Design and supply of software for the banking and financial services sector, and to colleges of education.

**Reason for potential mispricing**: Threatened proxy battle over reinstatement of sacked chief executive. Mondas sacked its founder and previous chairman and chief executive Tim Simon in August after a particularly disappointing set of results in June. These showed the company making a pre-tax loss of some £1.8m (a loss of £840,000 on a normalised basis) as a result of delayed sales and contractual wrangles with some customers.

Jarlath McGee, previously COO of the main subsidiary company, was appointed chief executive, while Colin Peters stepped in as interim chairman. The company subsequently announced that it was to focus more clearly on software for financial services and dispose of non-core products, principally its software offerings in the education market.

This all seems eminently sensible, but the market has clearly been spooked by a letter to shareholders from Mr Simon, asking for support at the forthcoming AGM to allow him and his associate Michael Jones to the board if Mr McGee and director Bernard Fairman are not reappointed. This suggests that Mr Simon intends to vote his own 18% shareholding against these appointments.

The new chairman has indicated that he and the group's finance director will resign if these resolutions are passed. The annual meeting takes place on Friday 29th October, as this issue goes to press. There is no doubt that events of this sort do cause disruption, but it is important not to get it out of proportion. The group has been winning new contracts in the financial services area on a regular basis in recent months.

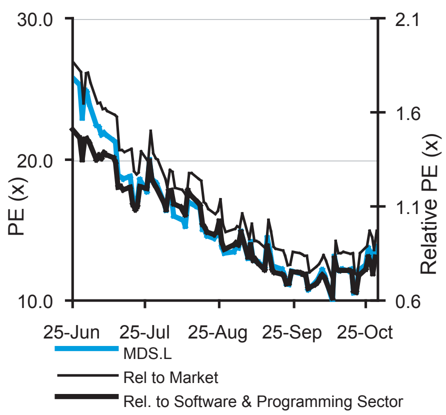
**Value criteria**: If market forecasts are to be believed, the shares, at 19.5p, stand on a current year PER of around 17.7 falling to single figures in the year to April 2006. The stock sells at slightly over 1 times revenue. It is, however, clearly about as high risk as you can get until this uncertainty is removed, particularly since the company has negative net assets and net borrowings that equate to about a third of market capitalisation.

**Analyst coverage**: Two analysts cover the stock, including corporate broker Teather & Greenwood. Its forecast, made after the results in June, was for pre-tax to recover to £300,000 in the current year to April 2005 and be back up to £3m in the year after. This translates into earnings per share of 1.1p and around 3p respectively.

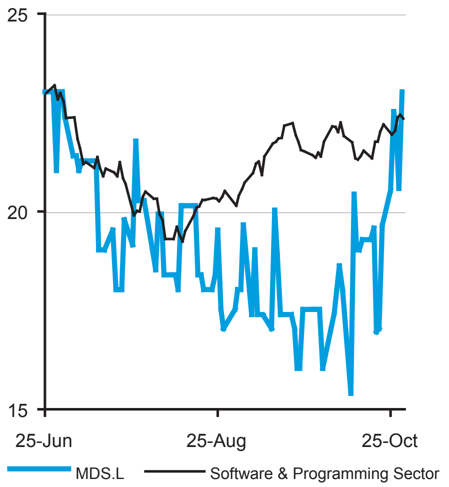
**More information**: www.mondas.com

**Next results**: Interims – mid-December

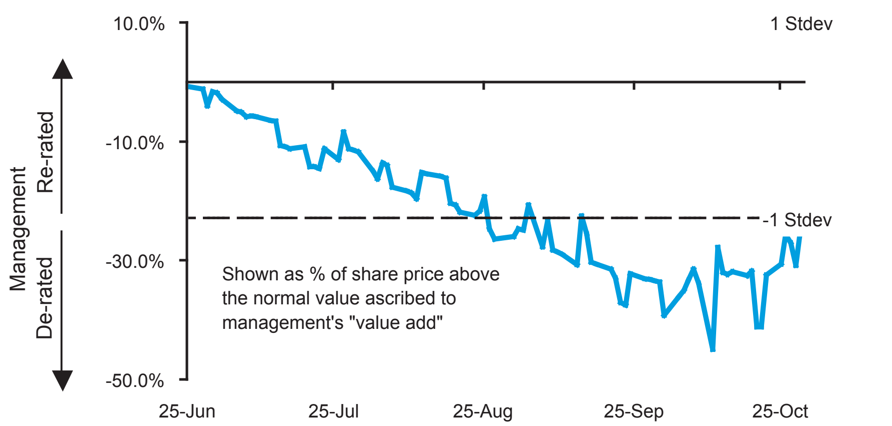
**MDS PE & PE relative**




**MDS v. Software & Programming**




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



**Name** (EPIC): **Metrodome** (MRM)

**Sector**: Media and entertainment (AIM)

**Basic business**: Licensing marketing and distribution of feature films.

**Reason for potential mispricing**: Overly gloomy response to interim results. Metrodome's shares slipped by around 5% to 7p in the last month despite a relatively upbeat trading statement issued with the results at the end of September.

The group said that it expects a successful second half due to a number of key DVD releases. Sales in the first fell 12% and profits were a nominal £17,000 in the first half (a loss of £48,000 in the prior year). The drop in sales was due to the absence of any new products to match the prior year's rental and retail video/DVD releases of 'Donnie Darko'.

The second half of the current year is expected to benefit from a number of releases, include the DVD release of the Charlize Theron vehicle 'Monster' and 'Donnie Darko: The Director's Cut'. Theron won the best actress Oscar for her role in the film. In the final quarter of the year, the group will also mastermind the theatrical release of 'The Corporation' – a documentary about the tobacco industry. Other releases include 'Vodka Lemon, a prize-winner at the Venice Film Festival' and the Italian documentary 'The Last Victory', as well as the DVD release of 'Northfork' and 'Bus 174'.

More to the point, the company appears to have gained tighter control of cash flow, which augurs well for the future. Freeing up cash to compete for major theatrical releases is an important element in the group's strategy.

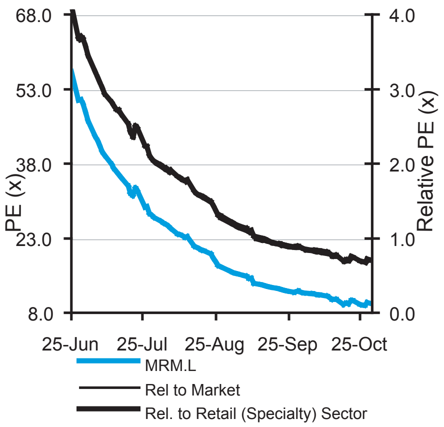
**Value criteria**: While the movie industry niche that Metrodome occupies is low on visibility of earnings, the company's rating is relatively low, at least based on historic profits, with a PER of around nine times. Return on capital is around 25%. If the company's prediction about a promising second half are borne out by events, it looks unlikely these numbers will change much.

**Analyst coverage**: No analysts cover the stock at present. The company's brokers are Seymour Pierce and KBC Peel Hunt.

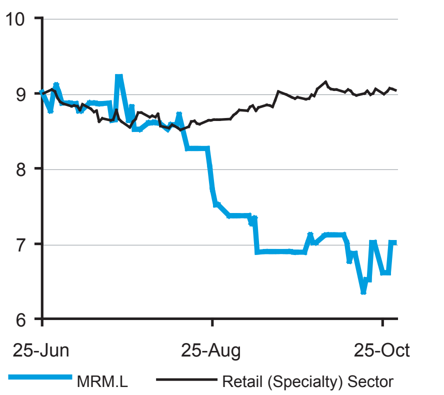
**More information**: www.metrodomegroup.com

**Next results**: Prelims – late March

**MRM PE & PE relative**




**MRM v. Retail (Specialty)**



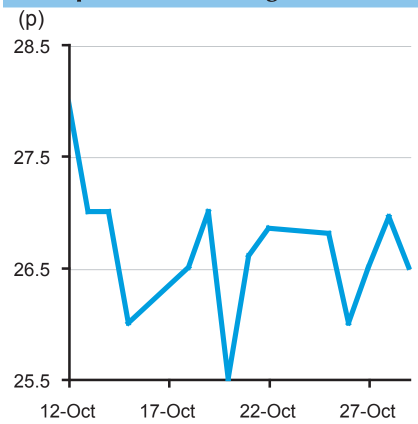
## Objective Capital - stocks to watch

| Name | EPIC | Price (£) | 1-m % ch in price | Forecast EPS gr. | Proj. PER (x) | Proj. Yield (%) | Risk factor 5=highest | T/O to Mkt cap. | % PBT Margin | No. of analysts | Consensus |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Abacus Group | ABU | 255.00 | 5.5 | 3.27 | 18.37 | 4.10 | 2 | 1.31 | 5.2 | 2 | Buy |
| **AEA Technology** | **AAT** | **185.50** | **1.4** | **-14.73** | **10.98** | **2.86** | **3** | **2.01** | | **3** | **Buy** |
| Alphameric | ALM | 75.75 | -6.2 | 12.96 | 18.89 | 3.57 | 4 | 0.67 | -5.6 | 3 | Buy |
| Arena Leisure | ARE | 39.25 | -5.5 | | 54.52 | | 4 | 0.20 | -122.4 | 2 | Buy |
| Ashley (Laura) Hdgs | ALY | 13.50 | -1.9 | 114.29 | 45.00 | | 3 | 2.79 | 1.1 | 4 | Sell |
| Bellway | BWY | 677.00 | -7.4 | 4.56 | 5.08 | 3.98 | 2 | 1.40 | 18.8 | 14 | Weak buy |
| Brambles Industries | BI. | 263.00 | 4.9 | 92.13 | 18.25 | 3.03 | 3 | 1.60 | 7.4 | 4 | Hold |
| Buckland Group | BUC | 0.41 | -27.3 | | | | 5 | 5.71 | -10.4 | | |
| Cambdg. Antibody Tech | CAT | 670.00 | 29.5 | | | | 4 | 0.00 | -477.7 | 10 | Weak buy |
| Carillion | CLLN | 217.00 | 2.4 | 13.23 | 12.13 | 2.95 | 3 | 3.98 | 1.3 | 10 | Weak buy |
| Collins & Hayes Grp | CIY | 15.00 | 10.0 | -27.86 | 4.95 | 6.67 | 3 | 5.61 | 11.9 | 1 | Hold |
| Computacenter | CCC | 310.75 | -8.9 | 10.67 | 12.13 | 2.44 | 4 | 4.27 | 2.6 | 8 | Hold |
| Cookson Group | CKSN | 32.00 | 0.8 | 192.45 | 10.32 | | 4 | 2.79 | -11.1 | 8 | Hold |
| Dairy Crest Group | DCG | 359.25 | 9.4 | 5.16 | 7.37 | 5.58 | 2 | 2.81 | 3.6 | 9 | Strng. hold |
| Dana Petroleum | DNX | 438.50 | 15.9 | 9.31 | 15.49 | | 5 | 0.30 | 36.6 | 8 | Hold |
| Dawson Holdings | DWN | 153.50 | 3.0 | 20.44 | 9.90 | 4.69 | 2 | 6.86 | 1.8 | 1 | Buy |
| Delta | DLTA | 86.00 | 3.0 | | | | 2 | 2.50 | 3.9 | | |
| Development Sec. | DSC | 386.50 | 0.8 | | | 1.54 | 1 | 0.20 | 3.7 | 2 | Hold |
| Easynet Group | ESY | 66.00 | -4.8 | | | | 5 | 1.48 | -17.1 | 4 | Buy |
| Egg | EGG | 93.75 | -5.6 | | 15.87 | | 4 | | | 3 | Hold |
| Eidos | EID | 88.50 | -17.6 | | 21.80 | | 5 | 1.05 | -1.5 | 1 | Hold |
| Elementis | ELM | 32.75 | 9.2 | -54.85 | 24.26 | 6.72 | 3 | 2.60 | 1.5 | 2 | Hold |
| Fenner | FENR | 125.00 | 12.4 | 48.96 | 16.23 | 4.67 | 2 | 1.85 | -2.1 | 2 | Weak buy |
| French Connection | FCCN | 319.00 | 0.2 | 10.02 | 10.30 | 1.24 | 2 | 0.87 | 14.2 | 11 | Buy |
| Goldshield Group | GSD | 212.50 | -0.5 | 104.82 | 8.47 | 1.86 | 3 | 1.11 | 3.8 | 2 | Buy |
| Helical Bar | HLCL | 1057.50 | 4.1 | 50.73 | 21.38 | 1.73 | 1 | 0.19 | 25 | 2 | Buy |
| Hunting | HTG | 188.00 | 13.2 | 28.00 | 15.35 | 2.13 | 2 | 6.32 | 1.8 | 6 | Buy |
| **lastminute.com** | **LMC** | **111.50** | **-24.9** | **2450.00** | **43.72** | | **5** | **0.56** | **-25.3** | **4** | **Buy** |
| Longbridge Int. | LGI | 71.50 | -4.6 | 209.56 | 12.77 | | 3 | 0.92 | 7.9 | | |
| Metalrax Group | MRX | 78.50 | -6.8 | -3.78 | 11.01 | 6.88 | 1 | 1.06 | 11.5 | 4 | Weak buy |
| **Metrodome Group** | **MRM** | **7.00** | **-6.8** | | | | **3** | **0.69** | **3.4** | | |
| MFI Furniture Group | MFI | 102.50 | -4.0 | -52.25 | 17.55 | 4.01 | 3 | 2.31 | 8 | 13 | Weak sell |
| **Mondas** | **MDS** | **24.00** | **17.1** | | **21.82** | | **5** | **0.60** | **-44.8** | **2** | **Strng. hold** |
| NHP | NHP | 240.50 | 2.3 | -11.45 | 22.69 | 3.74 | 2 | 0.30 | 14.4 | 3 | Hold |
| Novar | NVR | 119.00 | -5.7 | -32.52 | 11.07 | 7.98 | 2 | 2.75 | -2.4 | 3 | Hold |
| Ottakar's | OKR | 361.00 | -1.8 | 6.82 | 13.24 | 1.82 | 3 | 2.01 | 4 | 11 | Weak buy |
| Patientline | PTL | 118.00 | 3.7 | | | | 3 | 0.38 | -29.7 | 4 | Buy |
| Psion | PON | 58.75 | 11.1 | | 72.53 | 1.70 | 5 | 0.49 | -16.3 | 3 | Buy |
| Redrow | RDW | 330.50 | -3.0 | 15.82 | 5.22 | 3.27 | 2 | 1.24 | 18.5 | 16 | Weak buy |
| Restaurant Group (The) | RTN | 106.00 | 9.4 | 10.25 | 14.62 | 3.59 | 2 | 0.99 | 7.3 | 10 | Buy |
| Ricardo | RCDO | 187.50 | -0.3 | | 12.92 | 4.80 | 2 | 1.60 | -1.9 | 4 | Hold |
| royalblue Group | RYB | 425.00 | -6.1 | -5.77 | 20.65 | 1.92 | 4 | 0.40 | 16.7 | 5 | Hold |
| Scottish Radio Holdings | SRH | 937.00 | -3.2 | 14.04 | 22.27 | 2.19 | 2 | 0.30 | 14.1 | 7 | Strng. hold |
| SIG | SHI | 498.25 | 5.1 | 20.67 | 12.95 | 2.75 | 2 | 2.09 | 4.1 | 10 | Buy |
| Singer & Friedlander | SFL | 273.00 | 1.0 | 15.36 | 20.42 | 2.46 | 2 | | | 5 | Hold |
| Somerfield | SOF | 134.00 | 3.1 | 32.49 | 11.65 | 1.96 | 3 | 6.70 | 1.2 | 12 | Weak sell |
| Spring Group | SRG | 102.00 | -11.4 | | 22.52 | 0.20 | 3 | 2.26 | -5.3 | 3 | Buy |
| Tate & Lyle | TATE | 424.25 | 11.5 | | 12.37 | 4.54 | 2 | 1.39 | 7.8 | 9 | Strng. hold |
| Wetherspoon (J D) | JDW | 233.25 | -4.1 | 20.89 | 13.21 | 1.84 | 2 | 1.71 | 5.9 | 19 | Weak sell |
| Wilson Bowden | WLB | 978.00 | -7.3 | 15.32 | 5.12 | 3.86 | 1 | 1.32 | 19.2 | 17 | Weak buy |
| Wimpey (George) | WMPY | 350.00 | -9.0 | 17.64 | 4.43 | 4.30 | 2 | 2.10 | 13.1 | 15 | Buy |

# 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*

**IBB - price since listing**




| | |
|---|---|
| **Price** (p) | **27.5** |
| Quote | Main market |
| EPIC | IBB |
| Hi-Lo last 12 mos. | n/a |
| Shares issued (m) | 419.00 |
| Issue price (p) | 25 |
| Market Cap'n (£m) | 115.23 |
| Proceeds (£m) | 38.50 |
| Enterprise value (£m) | 76.73 |
| Website | www.islamic-bank.com |

## Islamic Bank of Britain (IBB)

IBB, which we alluded to briefly in our market commentary in the last issue, raised some £38.5m in its recent offer. The company was capitalised at around £105m at its issue price, although the price has since risen slightly.

Dealings began in the shares on 12th October. The nominated adviser to the group is Grant Thornton Corporate Finance, and the broker to the business is Keith, Bayley, Rogers.

IBB is a rather less fully formed venture than we sometimes include in this section. It is in fact a start-up, its aim being to provide Islamic banking services for the Muslim population of the UK and, in the fullness of time, other parts of Europe. Islamic banking has to comply with rules set out in the Koran, which prohibits the paying and receiving of interest and any form of speculation, aside from the usual strictures involving pork, alcohol, tobacco and arms. The emphasis is on the sharing of risk.

While existing high street lenders have made some attempts to satisfy this market, Muslims are naturally suspicious that the products they offer are truly compliant with Islamic law. The market is potentially a very large one. There are 1.8m Muslims resident in the UK (and a further 12m elsewhere in the EU) with around £1bn in savings and approaching £9bn in conventional mortgages that could be converted to Islamic ones if the right product were designed.

Another statistic is particularly interesting. It is that around half of UK Muslims are aged under 25, which provides substantial scope for growth in the market as these individuals age and become active savers and in need of financial products like pensions, mortgages and other financial services.

Given its size, the mortgage market is particularly interesting. Until recently Islamic mortgages suffered double stamp duty because of the way the transaction was structured in a sort of lease-purchase arrangement. Last year's budget removed this imposition and has opened up the market. Competition in this area is primarily from the United Bank of Kuwait, HSBC, and West Bromwich Building Society.

IBB has a mixture of talent already in place including non-executives from the Muslim 'great and good', experienced Islamic bankers and several non-Muslim senior executives in the marketing, general management and treasury areas. As usual with organisations like this there is a committee of scholars to vet products to make sure they are Islamically sound.

IBB's aim is to establish a small branch network focused on areas with a high Muslim population, with a head office in Birmingham. The initial objective is to develop around 13 branches within a timescale of two years as well as a web presence and call centre to handle internet and telephone banking services, and will also offer correspondent banking services to other Islamic banks worldwide. Particular emphasis will be paid to anti-money laundering controls.

As well as personal banking and financial services, the company also expects to offer banking services for small businesses, including trade finance and letters of credit.

We will continue to update readers on the progress of this business in future issues.

More information: www.islamic-bank.com

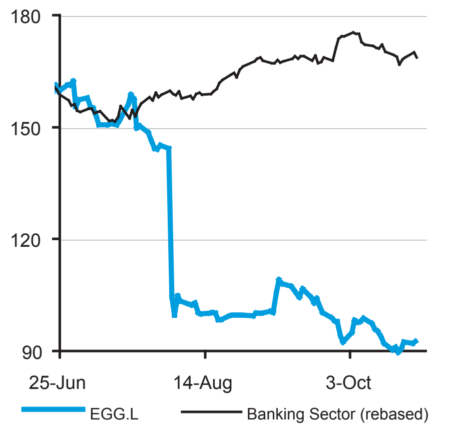
**Press speculation on future flotations**

| Company | Market | Type | Mkt Cap/Amnt Raised | Description |
|---|---|---|---|---|
| Amtico | TBA | Placing | £150m / £20m | Floor tiles specialist |
| Arakis | TBA | Placing | TBC / £25m | Drug development company |
| British Mediterranean Airways | TBA | | £50m / TBC | British Airline |
| Cazenove | Main | Placing | £800m / TBC | Stockbroker |
| Coral Eurobet | TBA | | £1,300m / TBC | UK's third largest betting group |
| Euclidian | TBA | | £125m / TBC | Fully integrated insurance group |
| Fertility Medical Equipment | Aim | Placing | TBC / £10m | Producer of medical devices |
| Jaegar | TBA | | TBC / TBC | Clothing retailer |
| Kazakhmys Corporation | Main | Placing | £1,000m / TBC | Mineral Extraction and Processing |
| Links | TBA | | £40m / TBC | Jewellery chain |
| Mango DSP | Aim | Placing | £16m / £2m | Israeli technology firm |
| Merlin Petroleum | Aim | Placing | £8m / £6m | Australian oil explorer |
| Motor World | TBA | Placing | £80m / TBC | Car accessories retailer |
| Pendragon Medical Technology | Aim | | £68m / TBC | Glucose monitoring device maker |
| QinetiQ | Main | | £1,000m / TBC | Defence research company |
| Rambler Media Group | Aim | Placing | TBC / TBC | Russia-focused UK media company |
| RHM | Main | | £1,000m / TBC | Food group |
| SSA Global | Main | | £1,650m / TBC | Business Software Company |
| Sual | Main | | £2,000m / TBC | Russian aluminium producer |
| The Capital Pub Company | Aim | Placing | £40m / TBC | Traditional pubs |

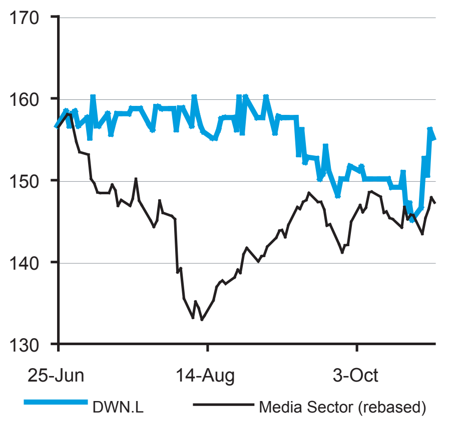
# Companies in the News

*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.*

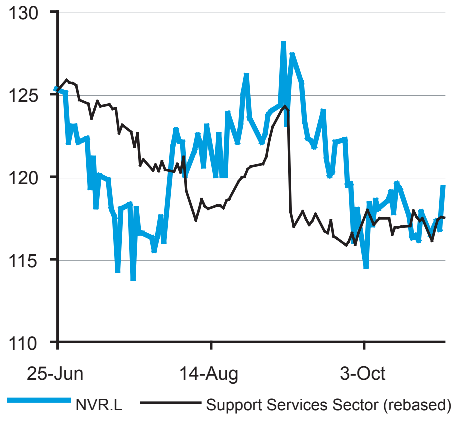
**EGG v. Banking Sector**




**DWN v. Media Sector**




**NVR v. Support Services Sector**




## Egg (EGG)

For the nine months to September 30 2004 Egg's pre-tax loss was £103.3m against a loss of £24.9m for the same period in 2003.This includes the previously announced provision of £113m raised in July for the costs of closing its French business and the operating losses of £35m incurred in France up to the date of Egg's announcement to withdraw from the market.

Operating income was £363.9m, against £310.6m for the same period in 2003. Operating profit was £10.0m against a loss of £23.4m for the first nine months of 2003.

Egg now intends to refocus on its core UK business after what has been an unsettling period. This was due to the failure of Prudential, which holds a 79% stake in Egg and which put the business up for sale in January, to find a buyer willing to pay an acceptable price. This failure to sell Egg as a complete package appears to have resulted in the company resorting to selling off several of its interests in separate deals.

The French unsecured loan business is to be sold to Banque Accord for what is expected to be up to €140m in cash, depending on the portfolio at the time of completion. Egg has also had an approach from ING Direct France to buy its French savings and online brokerage business.

The loss-making share dealing and fund supermarket business, Egg Invest, is to be sold to Fidelity in a move that will lead to annual savings of about £3m.

*More information: www.egg.com*

## Dawson Holdings (DWN)

According to a recent statement ahead of full year results, trading in the second half is in line with management expectations. In addition the group realised an exceptional profit of £1.5m in September following the disposal of an investment property for £2.2m.

Dawson News has successfully negotiated a new five-year contract with Trinity Mirror. Dawson Media Direct is set to increase the group's European presence by the acquisition of Newspaper Gate Services, which provides newspapers to airlines in Frankfurt. This is similar to Dawson's existing business in Brussels.

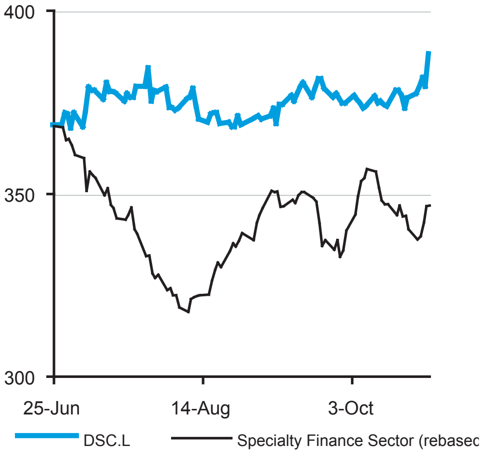
*More information: www.dawson.co.uk*

## Novar (NVR)

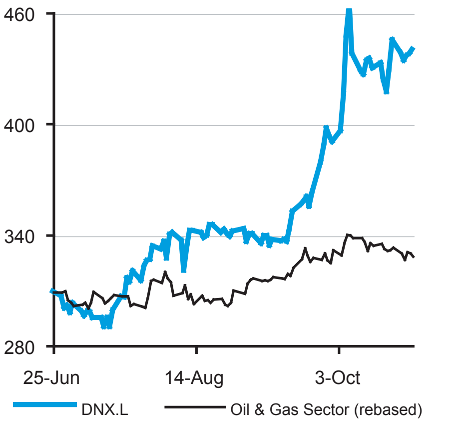
The group is to have a new CEO with effect from Jan 1 2005. Current CEO Jurgen Hintz will retire at the end of the year and be replaced by Stephen Howard. The company still expects full year figures to be in line with market forecasts.

*More information: www.novar.com*

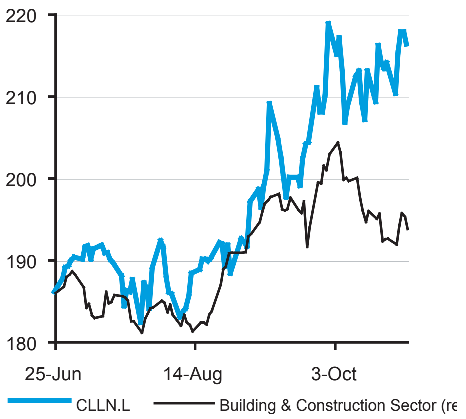
## DSC v. Specialty Finance Sector



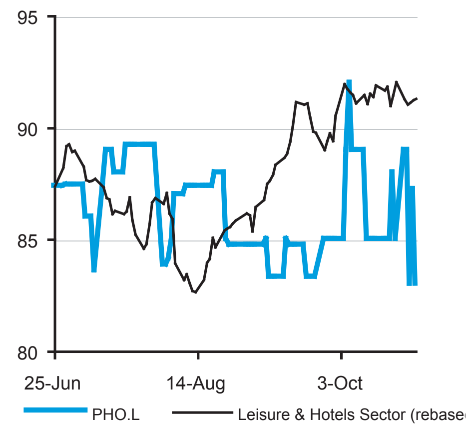

## DNX v. Oil & Gas Sector




## CLLN v. Bldg. & Construction Sector




## PHO v. Leisure & Hotels Sector




## Development Securities (DSC)

For the six months to June 30 2004 pre-tax profit was £400,000 against a loss of £1.5m for the same period last year. Sales also improved up from $8.4m for the first six months of 2003 to £9.9m this time round.

*More Information: www.developmentsecurities.com*

## Dana Petroleum (DNX)

Interim results showed pre-tax profit of £18.87m against £13.84m for the same period of 2003, an increase of 36% due to a 32% increase in sales to £48.7m.

Average production rose to a record of 17,895 barrels of oil equivalent per day (boepd) from 16,081 boepd for the first six months of 2003.

The company has announced the purchase of an additional 28% interest in the Hudson Oil Field in the UK North Sea from Amerada Hess, bringing its total stake in Hudson to 47.5%. In exchange, Dana will transfer Dana Petroleum (Indonesia) to Amerada Hess with a balancing cash consideration payable at completion.

The completion of the deal will result in a rise of approximately 3,500 barrels of oil per day in Dana's North Sea production.

Dana has also announced that it has entered into an exploration deal with Woodside Energy. This will advance Dana's international exploration programme across four countries: Kenya, Mauritania, Ghana and Australia.

*More information: www.dana-petroleum.com*

## Carillion (CLLN)

The company is to sell its French civil engineering contracting and building business to its local management team for approximately €15m in cash. The value of net assets being sold is approximately £11m. The sale will enable Carillion to pursue its growth strategy both organically and by acquisition.

The company also announced that it has recently won a £50m joint contract with Nestor Healthcare Group to build and run a private sector health centre in Essex.

*More information: www.carillionplc.com*

## Peel Hotels (PHO)

Interim results showed pre-tax profits of £776,467 against £903,956 for the same period in 2003. Sales were £6.79m compared with £6.49m for the same period last year and operating profit was down 4.4% at £1.49m against £1.56m for the same period in 2003.

Accommodation revenue per available room increased 9.3%, with average room rate up by 4.5% and occupancy up by 4.6%.

*More information: www.peelhotels.com*

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## Recent flotation data

| Company | Market | Type | Mkt Cap/Amnt Raised | Issue Date |
|---|---|---|---|---|
| Blue Star Capital | Aim | Placing | £11m / £5m | 29-Oct-04 |
| Clerkenwell Ventures | Aim | Placing | £5m / £3m | 29-Oct-04 |
| D1 Oils | Aim | Placing | £34m / £13m | 29-Oct-04 |
| Isis Medical Technology | Aim | Placing | £1m / TBC | 29-Oct-04 |
| Jessops (WI) | Main | Placing | £181m / £100m | 29-Oct-04 |
| Synairgen | Aim | Placing | £28m / £10m | 26-Oct-04 |
| ADDleisure | Aim | Placing | £5m / £1m | 25-Oct-04 |
| Hill Station | Aim | Placing | £5m / £1m | 25-Oct-04 |
| Metals Exploration | Aim | Introduction | £1m / n/a | 22-Oct-04 |
| Jelf Group | Aim | Placing | £11m / £2m | 21-Oct-04 |
| Music Copyright Solutions | Aim | Introduction | £6m / n/a | 21-Oct-04 |
| smartFOCUS | Aim | Placing | £7m / £1m | 20-Oct-04 |
| Daniel Stewart Securities | Aim | Introduction | £12m / n/a | 18-Oct-04 |
| Delling Group | Aim | Placing | £8m / £2m | 14-Oct-04 |
| VASTox | Aim | Placing | £42m / £15m | 14-Oct-04 |
| Islamic Bank of Britain | Aim | Placing/Offer | £105m / £40m | 12-Oct-04 |
| Allergy Therapeutics | Aim | Placing | £46m / £16m | 11-Oct-04 |
| Sareum | Aim | Placing | £7m / £2m | 11-Oct-04 |
| Mercator Gold | Aim | Introduction | £3m / n/a | 8-Oct-04 |
| Pearl Street Holdings | Aim | Placing | £1m / TBC | 8-Oct-04 |
| Win | Aim | Placing | £19m / £3m | 6-Oct-04 |
| Begbies Traynor | Aim | Placing | £26m / £4m | 1-Oct-04 |
| China Wonder | Aim | Placing | £2m / TBC | 1-Oct-04 |