AIM Monitor

Issue 2 | September 2019

LINK Asset Services

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Introduction to AIM

The Alternative Investment Market (AIM) began its 25th year of life in June 2019, continuing its mission as a growth market dedicated to small and medium-sized companies. It provides access to capital for fledging companies, imposing a lighter regulatory burden than the main market in order not to deny smaller companies the benefits that come with public ownership.

The number of companies listed on AIM has been falling over the last decade or so, however. At the end of June 2019, there were 766 UK companies on the exchange, and 134 foreign companies. Together they had a market value of £100.2bn. The UK companies are on average larger than the international ones. The decline in the number of listings on AIM from the 2007 high point partly reflects the sluggish decade of economic growth, but also the growing prominence of private equity as a source of early-stage finance, which is both shrinking the pool of new companies floating on the exchange, and also taking listed companies private. In addition, the ebb and flow of M&A, the elevation of some AIM companies to the main stock market (e.g. GVC), and occasional collapses, like Conviviality in 2018, have also meant lower numbers.

Most recently, new listings have dropped as smaller companies in the UK have seen valuations fall dramatically compared to large caps and to international peers. This is thanks in large part to the uncertainty caused by Brexit and the shadow it is casting over the UK economy. Shareholders would no doubt rather wait until they can get a better price for their businesses. Half as many companies floated or raised new capital in the first half of this year compared to the same period in 2018, and they raised one third less capital between them.

Fewer AIM companies pay dividends than their main-market counterparts, simply because so many are still in their early capital-hungry phase. But not only has the proportion of AIM companies paying dividends risen, but those coming to market are doing so earlier, and those paying them are growing their dividends rapidly.

Executive Summary

AIM dividends rise to new record

- AIM payouts rose 15.1% year-on-year to a record £1,116m in 2018, rising above £1bn for the first time
- Underlying growth (excluding one-off specials) was 16.4%
- H1 2019 dividends jumped 23.9% year-on-year, equivalent to 13.9% underlying growth
- AIM dividends have tripled since 2012, compared to a 45% increase in main-market dividends
- Healthcare, financials and industrial goods led the pack in H1 2019, but retail and building materials & construction lagged behind

The proportion of AIM companies paying a dividend is increasing

- 263 AIM companies paid a dividend in 2018, with more likely for 2019
- The proportion of AIM companies paying a dividend has risen from 26% in 2012 to an expected 35% in 2019
- On the main market, four fifths of companies paid a dividend in the last 12 months

Special dividends back in 2019

- AIM companies are less likely to pay specials than their main-market counterparts
- 2018 saw the lowest specials since at least 2012, but 2019 is set for a bumper year, thanks in particular to one very large payout from Bowleven

Lower share prices and rising payouts drive higher yield

- Prospective yield on AIM stocks rises from 1.2% a year ago to 1.5% owing to rising payouts and lower share prices
- If we exclude companies that pay no dividend at all, AIM companies will yield 2.5%, only slightly behind the main-market mid-caps
- AIM stocks yield considerably more than cash and bonds

Top Payers – more diversification on AIM than the main market

- Top 10 paid a quarter of all AIM's dividends in 2018, down from 30% in 2012
- Main-market top 10 paid almost half the total
- Five of AIM's 20 largest companies by value have never paid a dividend

Outlook

- Rapid dividend growth is a vital driver of share price values
- Brexit-uncertainty will not affect our 2019 forecast, which we leave unchanged at a record £1,304m, an increase of 16.8% in headline terms; underlying growth will be 12.0%
- The slowing economy is likely to impact growth in 2020
- We expect headline growth of 2.3% to £1,333m, equivalent to underlying growth of 6.9%

AIM dividends rise to new record

Dividends paid by AIM companies breached the landmark £1bn in 2018 for the first time. They rose to a record £1,116m, an increase of 15.1% year-on-year on a headline basis. The total was a touch behind our £1,160m forecast, partly owing to a smaller contribution from newly listed companies, and partly to a much softer fourth quarter than the recent trend: growth in Q4 last year dropped out of double digits for the first time in three years. Underlying dividends, which exclude one-off specials, rose 16.4% last year to a record £1,099m, half of which came from new companies floating on AIM for the first time.

In the first six months of 2019, headline dividends of £633m, up 23.9% year-on-year, set AIM on course for another record year. The growth rate was flattered by unusually large special dividends (see below), but even on an underlying basis, the £571m total was 13.9% higher compared to the first half of 2018. A little under half of this increase was also contributed by new listings.

The current run rate means that in the twelve months to the end of June 2019, AIM's dividends had almost exactly tripled since 2012, an annualised growth rate of 18.2%; the rate is similar even if we adjust for companies joining and leaving AIM.

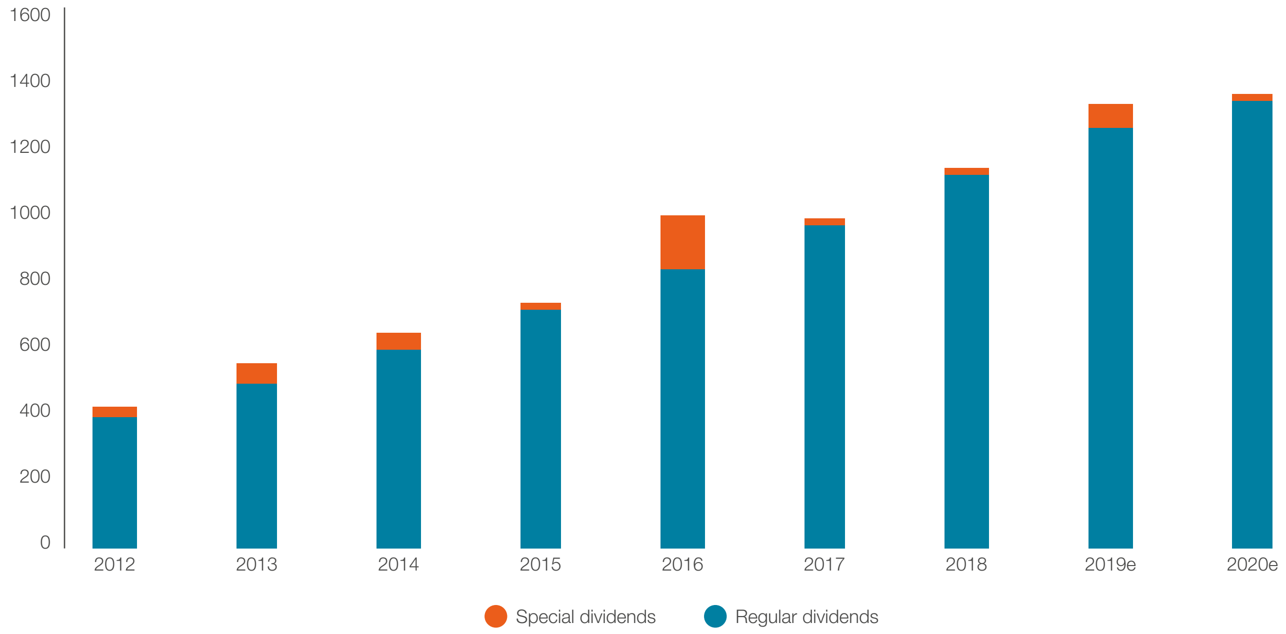
By comparison, main-market dividends had grown 45% over the same period, an annualised growth rate of 5.9%, or 5.0% once the weaker value of the pound is taken into account. This is objectively a good figure that most investors would be happy with, but it cannot match the rate of growth seen on AIM. The explanation, of course, is that main-market companies are much larger and more mature than their AIM counterparts, and so are unable to grow so quickly. But, of course, their dividend firepower is enormous by comparison: the entire crop of AIM dividends over the last 12 months only slightly exceeded the payout of the twenty-first largest single main-market dividend payer, Reckitt Benckiser. Even the main-market small-caps paid £4.8bn over the same period, four times the AIM total.

Among the larger-paying AIM sectors, the fastest underlying growth so far this year has come from healthcare, financials, and industrial goods and support companies, but AIM's retailers paid out a fifth less year-on-year, thanks to the bankruptcy of Conviviality. Building materials & construction dividends also fell.

	Regular Dividends £m	Special Dividends £m	Total Dividends £m
2012	£389.4	£27.5	£416.9
yoy			
2013	£484.0	£64.2	£551.4
yoy	*24%*	*134%*	*32%*
2014	£582.9	£46.2	£633.3
yoy	*20%*	*-28%*	*15%*
2015	£700.0	£21.6	£728.6
yoy	*20%*	*-53%*	*15%*
2016	£820.3	£155.7	£984.0
yoy	*17%*	*620%*	*35%*
2017	£943.7	£25.9	£969.6
yoy	*15%*	*-83%*	*-1%*
2018	£1,098.5	£17.7	£1,116.2
yoy	*16%*	*-32%*	*15%*
2019e	£1,230.3	£73.6	£1,303.9
yoy	*12%*	*317%*	*17%*
2020e	£1,315.5	£17.9	£1,333.4
yoy	*7%*	*-76%*	*2%*
2018 H1	£500.7	£10.8	£511.5
yoy	*47%*	*-68%*	*34%*
2019 H1	£566.7	£66.7	£633.5
yoy	*13%*	*517%*	*24%*

AIM dividends 2012-2020

Millions

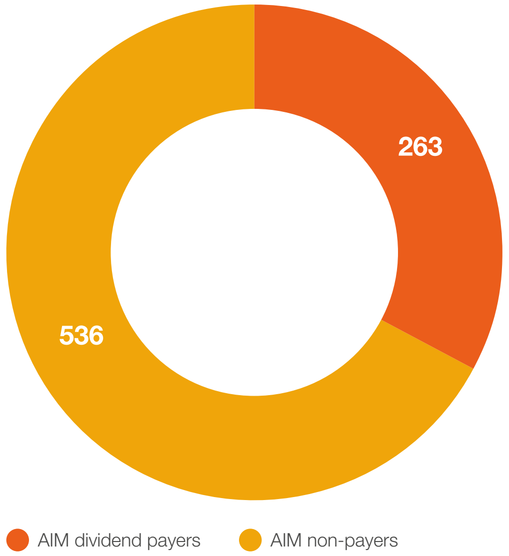


The proportion of AIM companies paying a dividend is increasing

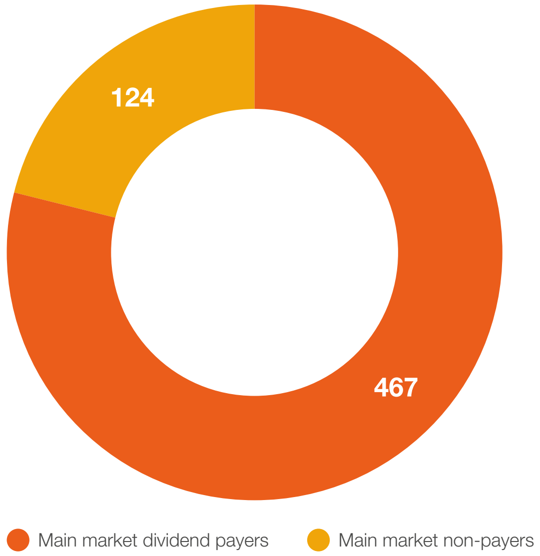
263 AIM companies paid a dividend in 2018, and we expect this number to grow slightly this year, despite dividend payers like Bioventrix being taken private. This number has been broadly flat over the last five years, but it represents a steadily growing proportion of AIM stocks. In 2019, we expect almost 35% of AIM companies to pay a dividend, up from 26% in 2012 and one third last year. The rising proportion results from the falling number of stocks listed on AIM, but it also reflects a growing culture of dividend-paying among those that remain, as well as new listings, like legal services company Anexo, which paid a dividend in its first year since IPO. On the main market, four fifths of companies paid a dividend in the year to the end of June 2019.

Since 2012, 465 AIM companies have paid a dividend. Only just over half of those that paid a dividend in 2012 also did so in 2018, but compared to three quarters of 2012's main market top 100 index. It's natural that the survival ratio is lower among AIM stocks – and it is in fact not dissimilar to the ratio among main-market smaller companies.

AIM 2018



Main Market 2018

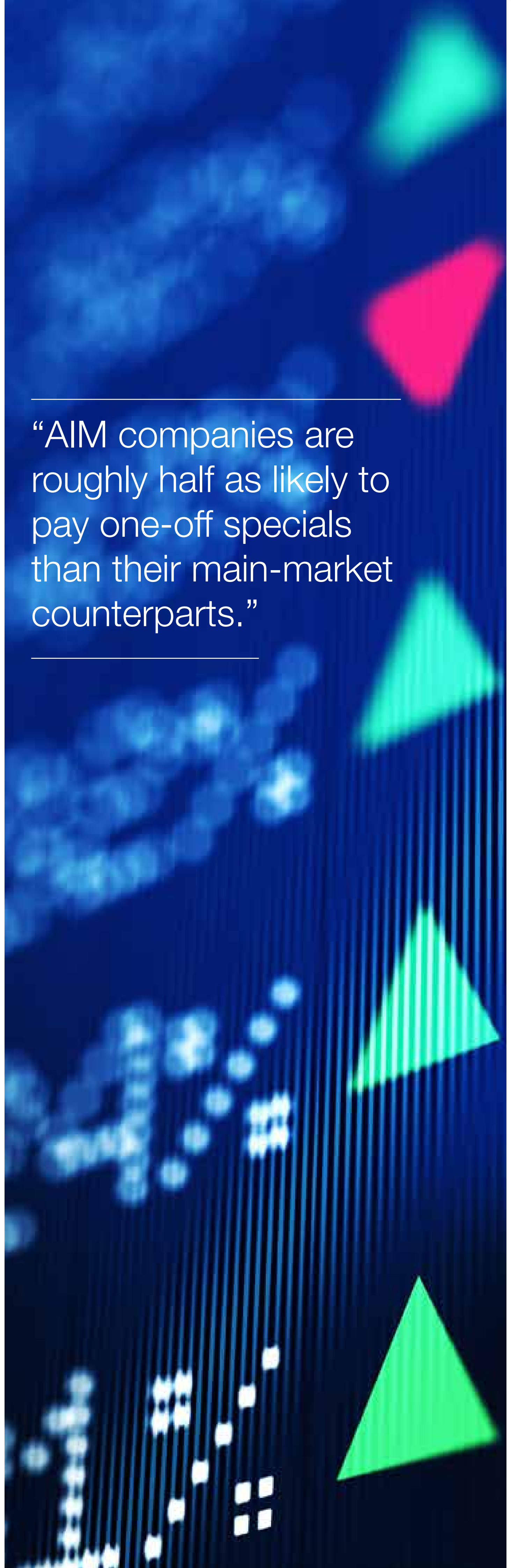


Special dividends bounce back in 2019

Unlike regular dividends, special distributions are very volatile and hard to predict. Best practice dictates they only be used if a company has generated a big one-off profit, perhaps by selling part of its business, or if surplus capital results from a merger. Some companies use them simply if they are trading strongly, fearful of raising the regular dividend and setting investor expectations too high for the future. Quartix Plc, a vehicle tracking specialist, has paid a special dividend alongside its regular one in each of the last three years, and likely falls into this category. For companies in cyclical industries, a dividend policy based on a set payout ratio may be preferable, allowing payouts to rise and fall with the business cycle, rather than specials in good times and jarring cuts in bad.

AIM companies are roughly half as likely to pay one-off specials than their main-market counterparts, even after taking into account the lower overall prevalence of dividend paying. Nevertheless, the value of AIM specials since 2012 has averaged 8% of regular dividends, in line with the main market proportion.

At £17.7m, 2018 saw the lowest special dividends from AIM companies since at least 2012, and came in in line with our forecast. Not only was the value paid very low, but there were very few payers too, numbering just eight. 2019 will not only see more payers, but a much larger value too, the second highest on record. Three quarters of the H1 2019 of £66.7m came from just one company, Africa-focused oil producer Bowleven, which distributed almost £50m following the intervention of an activist shareholder with an eye on the company's very large cash balance.



"AIM companies are roughly half as likely to pay one-off specials than their main-market counterparts."

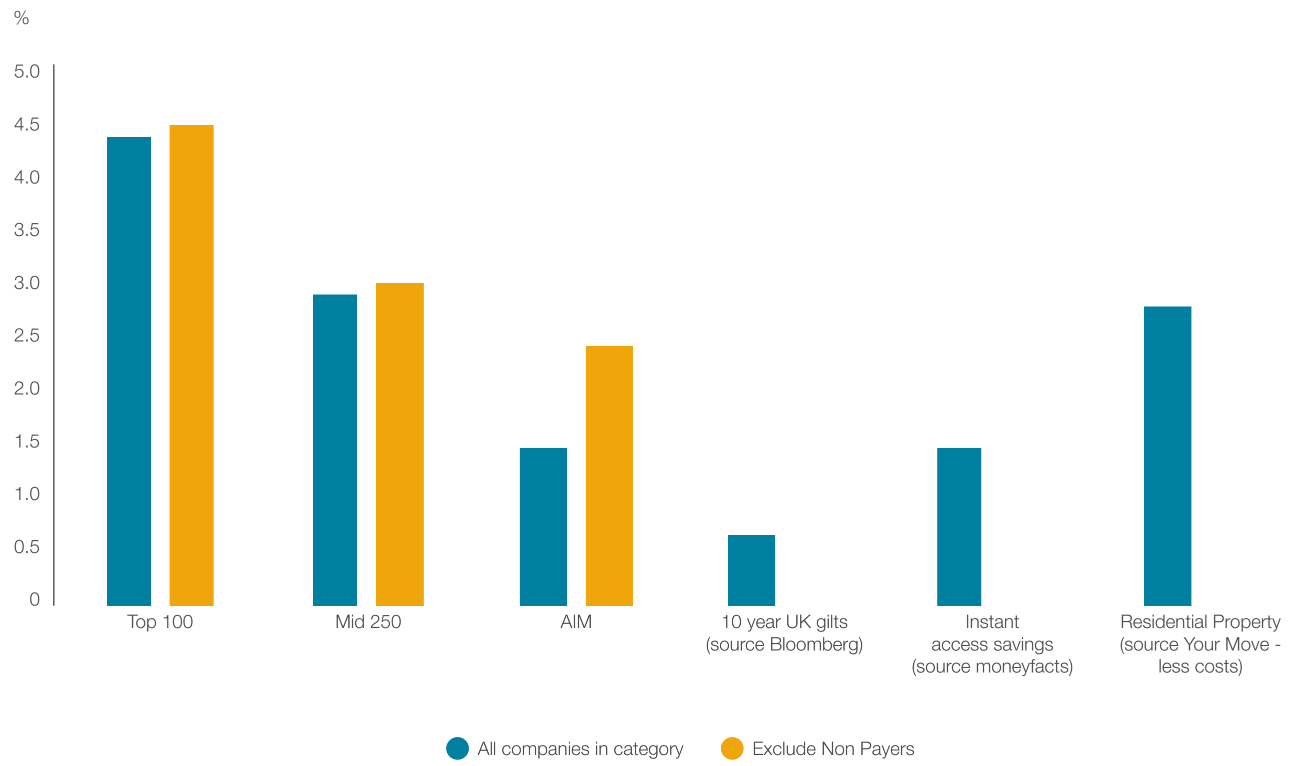
Lower share prices and rising payouts drive higher yield

An asset's yield is calculated by dividing the income it pays by its price and is an easy way of comparing one asset class to another. UK equities are currently delivering very high yields compared both to their historic average and to shares in other countries. Part of this relates to the mix of companies listed in London (such as the global giants BP and Shell which both have very high yields), part reflects a deeply entrenched dividend-paying culture in the UK, and part is a function of the Brexit-impaired value of British assets. Broadly speaking, larger companies are more mature. This means they tend to generate a lot of cash and need less capital for investment relative to their size. The UK's top 100 companies are set to yield 4.4% over the next twelve months, according to our latest quarterly UK Dividend Monitor. Mid-caps will yield 2.9%.

AIM companies have relatively less free cash flow while they are in their growth phase, so their dividend fire-power is less than more mature businesses. Their yield reflects this disparity. Over the next twelve months, AIM stocks will yield a collective 1.5%, up from 1.2% this time last year, owing to a combination of lower share prices and growing payouts. If, however, we exclude companies that do not pay a dividend at all, then the yield of those that do will be 2.5%, much closer to the 3.1% from the mid-caps and 4.5% from the top 100 on the same basis.

Dividend-paying AIM stocks are therefore yielding substantially more than government bonds and cash, and are only a touch behind residential property.

UK Yield - Next 12 months



Top Payers – more diversification on AIM than the main market

The ten largest AIM payers accounted for one quarter of all AIM's dividends in 2018, down from 30% in 2012. The dominance of a few big payers declined steadily from 2012 to 2016, but has now levelled off, suggesting that the largest payers are keeping pace with dividend growth in the wider market. In 2019, the very large special dividend from Bowleven will push the top ten's share higher, but that will reverse in 2020.

On the main market, the top 10 payers accounted for almost half the total in 2018, meaning there is greater income diversification to be found on AIM. There is also more change among the AIM top 10. Four companies have appeared in this group every year since 2012 (Highland Gold Mining, James Halstead, Abcam, and Polar Capital), compared to eight from the main-market top 10. The higher turnover among the AIM companies is a function both of more rapid growth rates, and the greater likelihood of takeover or failure.

Of the top 20 companies by market value in July 2019, five have not paid a dividend in at least the last seven years. All of the main-market top 20 have.

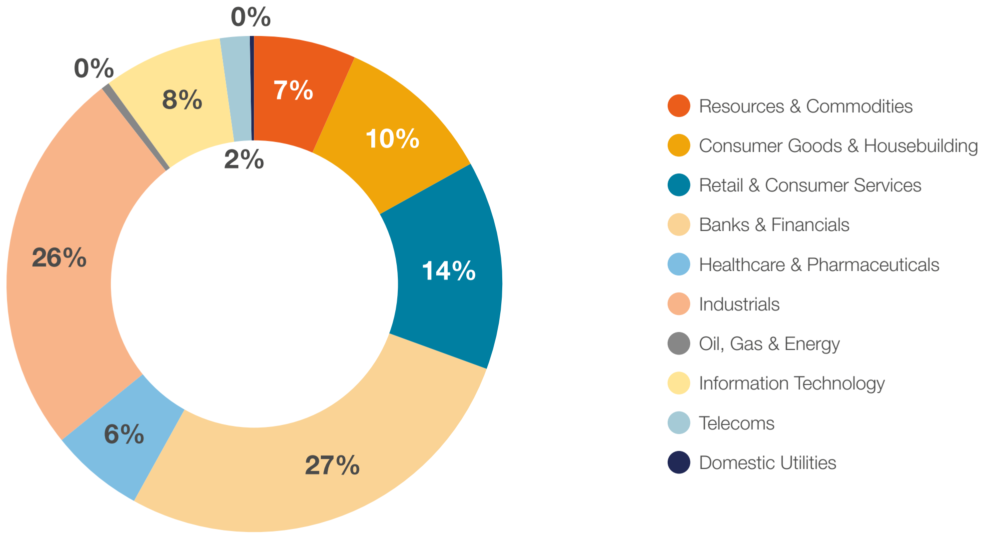
> "The ten largest AIM payers accounted for one quarter of all AIM's dividends in 2018, down from 30% in 2012."

2012	£m	2013	£m	2014	£m	2015	£m
Highland Gold Mining	£31.2	James Halstead plc	£32.6	Polar Capital Hldgs Plc	£21.8	Juridica Investments	£27.7
James Halstead plc	£16.5	Impellam Group Plc	£19.8	James Halstead plc	£20.7	Redde plc	£26.3
iEnergizer Ltd	£12.2	Highland Gold Mining	£17.9	Victoria Plc.	£20.7	NewRiver REIT Plc	£23.7
Abcam	£12.0	Archipelago Resources	£16.0	Highland Gold Mining	£16.3	James Halstead plc	£22.8
Sherborne Investors (Guernsey) A Limited	£12.0	Pan African Resources Plc	£14.7	Abcam	£15.5	Polar Capital Hldgs Plc	£22.3
Majestic Wine	£10.1	Abcam	£14.1	Northacre plc	£15.0	Abcam	£16.6
Numis Corporation plc	£9.2	Juridica Investments	£13.6	Pan African Resources Plc	£14.9	Central Asia Metals Plc	£13.4
Prosperity Minerals Hldgs	£8.2	Central Asia Metals Plc	£12.5	Juridica Investments	£14.6	Highland Gold Mining	£13.0
Emis Group Plc	£7.8	Polar Capital Hldgs Plc	£10.8	NewRiver REIT Plc	£12.6	Emis Group Plc	£12.5
Polar Capital Hldgs Plc	£7.1	Northacre plc	£10.7	Daisy Group	£12.3	Numis Corporation plc	£12.4
Top 10 Total	£126.3	Top 10 Total	£162.5	Top 10 Total	£164.4	Top 10 Total	£190.7
Total AIM Dividends	£416.9	Total AIM Dividends	£551.4	Total AIM Dividends	£633.3	Total AIM Dividends	£728.6
Top 10 as % of all dividends paid	30%	Top 10 as % of all dividends paid	29%	Top 10 as % of all dividends paid	26%	Top 10 as % of all dividends paid	26%

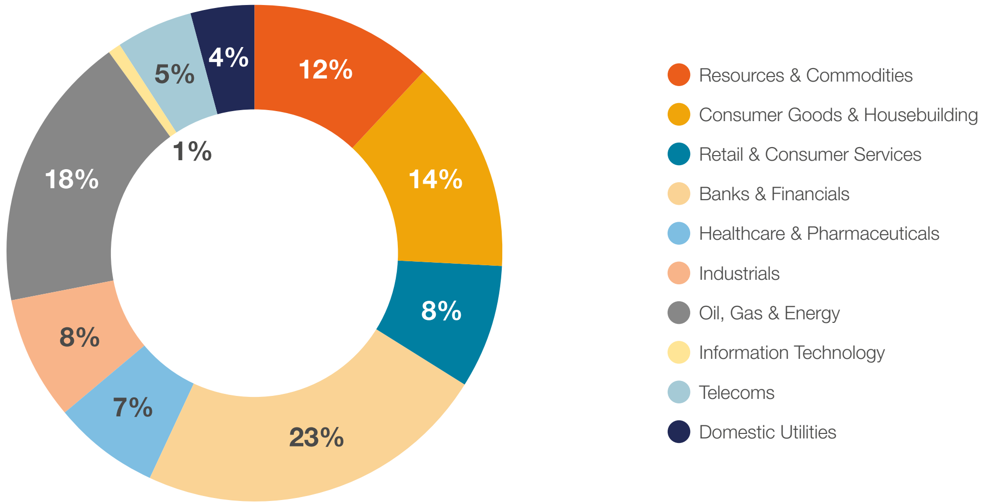
2016	£m	2017	£m	2018	£m
Arbuthnot Banking Group Plc.	£52.9	Highland Gold Mining	£33.8	Highland Gold Mining	£37.1
Juridica Investments	£44.1	Redde plc	£32.2	Redde plc	£35.5
James Halstead plc	£41.2	James Halstead plc	£27.0	Secure Income REIT Plc	£33.1
Redde plc	£28.3	Secure Income REIT Plc	£25.0	Central Asia Metals Plc	£29.0
NewRiver REIT Plc	£26.2	Polar Capital Hldgs Plc	£22.9	James Halstead plc	£28.1
Highland Gold Mining	£24.4	Conviviality Plc	£21.8	Polar Capital Hldgs Plc	£26.2
Polar Capital Hldgs Plc	£22.7	Abcam	£20.8	Abcam	£24.6
Abcam	£18.1	Central Asia Metals Plc	£18.4	Eddie Stobart Logistics Plc	£21.6
Empyrean Energy	£17.5	Emis Group Plc	£15.6	SafeCharge International Group Limited	£19.8
Pan African Resources Plc	£17.1	M.P. Evans Group Plc	£15.4	Burford Capital Limited	£18.6
Top 10 Total	£292.5	Top 10 Total	£232.8	Top 10 Total	£273.8
Total AIM Dividends	£986.9	Total AIM Dividends	£969.6	Total AIM Dividends	£1,116.2
Top 10 as % of all dividends paid	30%	Top 10 as % of all dividends paid	24%	Top 10 as % of all dividends paid	25%

Sectors

AIM dividends by sector – 2018



Main market dividends by sector – 2018



Outlook

Dividend growth matters because it lies at the heart of share valuations. One method, the so-called Dividend Discount Model, calculates the fair value of a company by adding up the present-day value of all the predicted future dividends of a company. The faster the growth rate, the higher the value. And the more visible the dividend stream, the more certain an investor can be about its value. It is obviously very hard to predict growth rates for young companies, but even the very presence of a dividend in the first place is a useful starting point. The equation is complicated by an allowance for risk, which is higher for small companies.

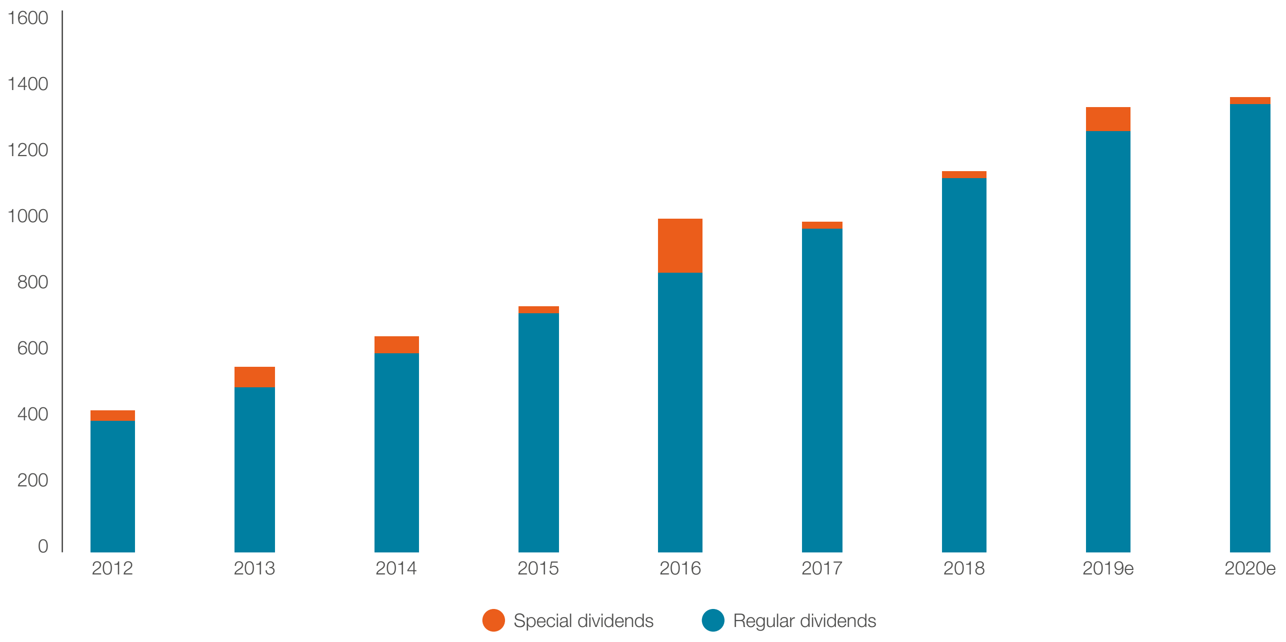
A simpler approach is simply to consider the yield. If we assume, for the sake of simplicity, that a stock's yield remains static over the medium term, then its share price must rise by the same amount as the dividend every year. All other things being equal, a company with 10% growth will see its share price rise twice as fast as one growing 5%. Of course, in reality market yields move around over time, but this approach still provides a useful yardstick.

Despite rapid ongoing dividend growth, the value of AIM companies has fallen sharply over the last year, as investors raise the risk premium they demand to hold UK assets in the face of an uncertain, and potentially damaging, Brexit outcome. Any associated economic slowdown will certainly impact the ability of AIM companies to grow too. Thinking longer term, however, the trend of dividends from AIM companies remains upwards, and that should drive shareholder returns. In this context, braver investors may consider current low valuations of AIM stocks as an opportunity.

For the this year, we leave our forecast (made a year ago) unchanged at a record £1.304m, an increase of 16.8% in headline terms. We expect underlying growth to be a little slower than initially expected, now 12.0%, down from 14.0% predicted this time last year. For 2020, lower special dividends are likely to impact headline growth, and a slowing economy is likely to undermine the underlying expansion. We forecast headline growth of 2.3% to 1,333m, equivalent to underlying growth of 6.9%.

AIM dividends 2012-2020

Millions



Methodology

Link Group analyses all the dividends paid out on the ordinary shares of companies listed on AIM. The research excludes investment companies such as listed investment trusts, whose dividends rely on income from equities and bonds. The AIM Dividend Monitor takes no account of taxation on dividends, which varies according to investor circumstances. The raw dividend data was provided by Exchange Data International, and additional information is sourced directly from companies mentioned in the report.

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