FINANCIAL TIMES

THURSDAY AUGUST 11 2011

Companies | UK

Governance checklist can help in picking the Aim winners from the also-rans

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SMALL TALK

The past couple of months have seen the Aim initial public offering market pick up. At £157m, the amount of new money raised last month was almost twice the level in July last year.

The new money raised in July was also, for the first time this year, above the amount raised in the secondary market.

But such glimmers of hope are quickly dashed by a closer look at the latest statistics for the junior market. At £146m, July's secondary fundraising was the lowest monthly total so far this year. And the cumulative total of new money raised in the first seven months was £417m, more than £50m below the amount of new money raised at the same point last year. Sometimes it feels as though Aim will never regain the buzz that should surround a market for entrepreneurial growth companies.

That should not detract from the achievement of those that have made it to market, many of them from the natural resources sector. Bayfield Energy Holdings, which is producing oil in Trinidad and Tobago and exploring in Russia and South Africa, completed the largest of last month's half a dozen IPOs, raising £54m.

Finian O'Sullivan and Hywel John, founders and respectively executive chairman and chief executive of Bayfield Energy, both have the sort of experience that opens the doors of institutional investors. They took Burren Energy from a market capitalisation of £175m on flotation on the London Stock Exchange in 2003 to its eventual sale for £1.7bn to Eni in 2008.

Their latest venture looks promising. But there are many companies on Aim offering investors a way into the oil and gas industry, and higher oil prices have not translated into higher share prices.

Almost two-thirds of the 130 Aim and main market companies in the sector lost money for their shareholders over the five years to June. While seven of the top 10 share price performers are Aim-quoted, there are another 120 companies accounting for only 7 per cent of the total market capitalisation, mostly on the junior market. The question is, how to sort the wheat from the chaff?

Opus Executive Partners, a specialist executive search advisory firm for natural resources industries, has come up with a way of measuring the effectiveness of the sector's corporate governance, awarding points up to a maximum of eight for companies having a separate chairman and chief executive, the right number of independent non-executives and the correct committee structure. Next week it will publish its findings, which have found a link between governance and share price performance in the sector.

The top 10 companies that scored 90 per cent for corporate governance delivered a growth in shareholder value of 49 per cent over the five years to June. The bottom 10, with an average corporate governance score of just 13 per cent, decreased shareholder value by 55 per cent.

Aim companies do not have to follow the UK Corporate Governance Code. But they should follow the Quoted Companies Alliance guidelines, which are more demanding than the Aim rules.

The Opus survey seems to confirm that paying more than lip-service to the rules will bring material benefits. It is something that all companies considering an Aim flotation should bear in mind. Investors should pay as much attention to governance as to production forecasts.

Bayfield Energy, which is just embarking on life as a quoted company, has two independent non-executives and a third non-executive who holds an 18 per cent stake. Using the Opus system, it has a corporate governance score of 75 per cent, which is twice the industry average. That goes some way to explaining how its shares have stayed above the flotation price of 60p in spite of recent market turbulence.

Meanwhile Opus researchers note that only 3 per cent of directors on oil and gas company boards are women, compared with 15 per cent across all UK boards. That situation should be rectified, perhaps by looking for new recruits to replace some of the many directors with multiple appointments.

The survey cites one non-executive – Walter William Brown of Forum Energy – who had 87 directorships when he joined the company in 2008. Would he have been able to sit down with pen and paper and write from memory the names of every company he served?

Fair wind?

Some stories give every indication that the market has no idea how to value small companies. That is not just the case on Aim, but also on the full list, where Hansen Transmissions International recently received an offer at 66p a share, a 96 per cent premium. The Belgium-based maker of wind turbine gearboxes has had a bumpy couple of years, but its turnover of £335m last year is still well above 2007, when it floated. The shares were priced then at 175p a share.

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