

# AIM's dependable dividend payers

With the base rate mired at 0.5 per cent, investors are getting little bang for their buck from the bank, meaning dividends are growing in their importance. Thankfully, AIM now offers income-hungry investors access to a band of profitable, sustainable dividend payers. **James Crux** reports

Income investors have had a rough recent ride, with quoted companies large, medium and small shelving or culling dividends to conserve vital cash resources. At the same time, with rates at rock-bottom levels, cash and bonds have not been providing sufficient income either.

However, dividends are making a comeback. According to Capita Registrars' latest Dividend Monitor report, analysing the latest total UK dividend payments, payouts in the first quarter of 2010 were down 2.5 per cent on Q1 2009 at £13.6 billion, dragged down by oil sector cuts and continuing falls at banking giant HSBC. What is significant, however, is this was the smallest dividend decline since the recession began; and what's more, 102 companies either increased or reinstated dividends, versus only 56 that cut or cancelled them.

## Income's overlooked importance

Dividends are too often overlooked in favour of capital growth, particularly in bull market conditions. This is despite the fact that income stocks – typically less cyclical, more defensive businesses and by their very nature profitable and cash-generative – outperform the wider market when the gap between bond and dividend yields narrows.

Barclays Stockbrokers' Henk Potts recently summed it up when he said, 'For investors with sufficient risk appetite, income stocks offer one potential solution to low money market yields, particularly as valuations now indicate a clear investment opportunity for yield-hungry investors.'

Historically a market for companies more focused on reinvesting cash for growth than returning it to shareholders, AIM is increasingly becoming a home to proven, profitable, dividend-paying concerns. In

fact, *Growth Company Investor's* analysis of 1,250 AIM firms reveals that 242 companies, a fifth of the market, paid a dividend at their latest interim or final stage, or both. Investors prepared to back such companies with robust, cash-generating models and proven progressive dividend policies are positioning themselves for superior returns.

## Norcon – strong record, significant yield

One such counter is communications network specialist **Norcon**, with a five-year growth track record and established dividend policy, which recently cheered investors with news of further contract wins with long-standing client Saudi Telecom Company (STC).

These deals came not long after Norcon dialled up strong 2009 financials, growing pre-tax profits 13 per cent to US\$10.7 million (£7.3 million) on turnover up 16 per cent to \$78.2 million as it generated good growth in its core South-East Asian and Middle Eastern markets.

Net cash strengthened considerably, by \$2.9 million to \$7.2 million, underpinning payment of a \$3.86 million final dividend (half Norcon's net income), or 8.5 cents (5.9p) per share. Shares in Norcon, which is weighing up paying dividends at the interim stage, are currently 72.5p, only slightly north of their 69p AIM issue price despite much positive progress. Trading on a bumper historic yield of 8.1 per cent, they offer the potential for strong gains and are well worth snapping up.

## ACM's sustainable income tide

Another dependable payer is **ACM Shipping**, the tanker broker that recently highlighted earlier-than-expected upturn in its markets. Floated on AIM in late 2006, ACM, with offices in London, India, China



and Singapore and whose activities span spot brokerage, freight, time charter and vessel sale and purchase, lifted total dividends more than 40 per cent to 8.5p in a challenging year to March 2009.

More recently, with the business still navigating recessionary waters, ACM upped its half-time payout 10 per cent to 2.75p, having maintained interim profits at £3.3 million (2008: £3.4 million) and finished the half unfettered by debt and with a reassuring £6.4 million cash in the coffers.

Set to benefit strongly from global economic recovery, ACM has been profitable since formation and is set to sail in with strong annual numbers at the end of June. Analysts are looking for profits of £6.3 million, earnings of 26.14p and a 9p dividend, leaving ACM shares at 201p, some way off their AIM peak of 270p, selling for less than eight times earnings and offering a prospective yield of 4.5 per cent.

### Billington worth backing

Showing commendable robustness and offering a healthy dividend to boot is structural steel and engineering specialist **Billington Holdings**, which performed solidly in 2009 and then strengthened its balance sheet by completing its restructuring.

Bossed by executive chairman Peter Hems, Billington boosted its continuing pre-tax profits by 29 per cent to £5.3 million, on turnover 5 per cent lower at £57.2 million, in a challenging last year. Closing the period with cash increased 113 per cent to £8.5 million, Billington felt confident enough to lift total dividends to 10p (2008: 11.5p).

'We remained profitable and doubled our cash position,' enthused Hems, while pointing out the recent completion of its restructuring bout, by way of the disposal of the loss-making Dosco and Hollybank businesses, has bolstered the balance sheet and will reduce ongoing pension contributions. This win-win move leaves Billington focused on its core Billington Structures and 'easi-edge' operations.

While analysts do see volume weakness and pricing pressure suppressing near-term earnings – 2010 profits were downgraded from £2.3 million to £1.5 million – Billington has the balance sheet strength to ride out near-term challenges and, based on a forecast 9p dividend, the shares, now 145p, offer a forecast yield of 6.2 per cent.

### Recruitment resilience

While the wider recruitment sector has been battered from pillar to post, a number of robust players offer proven income attractions. **Morson**, the Manchester-based provider of technical engineering personnel to sectors including rail, power and aerospace and defence, delivered solid

2009 numbers, stemming from the relative resilience of its sectors as well as its bias towards temporary recruitment. Pre-tax profits pushed more than 20 per cent higher to £9.7 million, despite a 5.3 per cent fall in net fee income to £34.8 million.

Ably steered by CEO Ged Mason, Morson demonstrated its confidence in long-term prospects by shelling out an unchanged final dividend of 4p, maintaining the annual payout at 6p. Analysts expect a similar dividend for 2010, meaning that Morson shares, at the current 102.5p, yield more than 5.8 per cent.

Recent half-year figures to January from **Matchtech**, another technical recruiter with a strong commitment to dividends, showed a stabilisation in the group's net fee income, albeit 25 per cent down on the first half of 2009 at £12.5 million, and maintenance of the interim dividend at 5p, supported by a marked improvement in cash flow to £5.9 million.

Guided by CEO Adrian Gunn, Matchtech remained profitable to the tune of £4.4 million in the half, while contractors on placement at the period-end reached a record 4,750, leaving the business looking well placed for economic recovery.

One worry is that around half of its NFI is exposed to parts of the public sector. However, much of Matchtech's business is contracted long term and the company, which shelled out 15.6p in total dividends for the year to July and should deliver 15.3p this year, offers a lucrative (historic) yield of 6.6 per cent.

Elsewhere in the sector, don't ignore **InterQuest**, a capital growth stock with income attractions. Bossed by the entrepreneurial Gary Ashworth, CEO and major shareholder, InterQuest, a niche IT staffer, is a highly cash-generative counter that has done much good recent work in paring debt levels and doubled dividends for last year to 2p. Investors should look for progression to 2.2p and 2.3p over the next two years, meaning the 67p shares are poised to yield comfortably more than 3 per cent over the next couple of years.

Last but by no means least amid the staffers is **Staffline**, which manages recruitment for clients at their own manufacturing sites. Growing organically but with a good track record of completing bolt-on acquisitions, Staffline furnished followers with a 1.7p final dividend for 2009, increased from 1.5p for 2008 and progressing its total annual payment to 3.1p. This (perhaps surprising) hike signalled rising levels of confidence emanating from charismatic chairman and CEO Andy Hogarth.

Like InterQuest, Staffline, which increased profits

from £3.4 million to £3.5 million in 2009, has been reducing gearing levels and, based on analysts' 2010 dividend forecast of 3.6p, its shares offer investors access to an alluring 4.5 per cent yield, and a sustainable one at that given the 'significant cash' Staffline expects to generate in coming years.

### Eye-catching electronics

Investors yet to do so should certainly be running the rule over the consistently cash-generative **Zytronic**, the maker of touch sensors and optical filters for electronic displays.

Newcastle-based, the company has just increased its interim dividend by an eye-catching 67 per cent to 2p following a solid half to March. Sales moved a modest 3 per cent higher to £8.2 million, yet orders increased 16 per cent on the first half of 2009 to £9.7 million, which, needless to say, bodes well for the second half and trading going into 2011.

Commenting on the bold dividend move, finance director Denis Mullan said, 'We held back at the interim last year, due to economic uncertainty, and only increased the dividend by 20 per cent. So this is a rebalancing and recognition of the strong profitability in the business.' Analysts subsequently upgraded their dividend forecasts for 2010 and 2011 from 5.5p to 6p and from 6p to 6.6p respectively and

improved their net debt estimates.

Set to grow profits from £2.3 million to £2.6 million in the current year to September, Zytronic's shares aren't dirt cheap – they sell for almost 16 times forecast earnings of 12.6p – but they do offer a dependable and attractive yield and are well worth buying and holding for income and growth.

### Recession no bar to Young & Co

Another stock demonstrating that the search for sustainable income can lead investors to any sector is **Young & Co's Brewery**, an AIM UK 50 venture that has eschewed the geared models that have dogged the pub sector's big boys. Amid exceptionally tough trading in the UK pub trade, Young's grew profits 22 per cent to £11.5 million on £67.2 million turnover in the half to September. Investors were invited to raise a glass as the interim dividend was increased for no less than the 13th consecutive year, by 2 per cent to 6.24p, despite ongoing investment in its managed and tenanted pubs portfolio.

Young's, with a freehold-backed balance sheet, looks set to pay solid 12.5p dividends for the years to March 2010 and 2011. Offering a stable, though not staggering, 2.5 per cent yield, its shares are worth a flutter as a preferred pub sector pick.

## AIM's proven dividend payers

Company	Share price (p)	Market cap (£m)	Last dividend (p)	Historic yield	Comment
Norcon	72.5	35.0	5.9	8.1	Buy on bumper yield
ACM Shipping	201.0	35.5	8.5	4.2	Trading strengthening
Billington	145.0	18.8	10.0	6.9	Buy for income & growth
Morson	102.5	46.5	6.0	5.85	Resilience misunderstood
Matchtech	237.5	55.3	15.6	6.6	Commitment to dividends
InterQuest	67.0	21.5	2.0	3.0	Niche business, nice yield
Staffline	80.0	17.0	3.1	3.9	Buy sturdy staffer
Zytronic	198.5	29.2	5.0	2.5	Offers income and growth
Young & Co	513.5	149.0	12.75	2.5	Preferred pub sector pick

