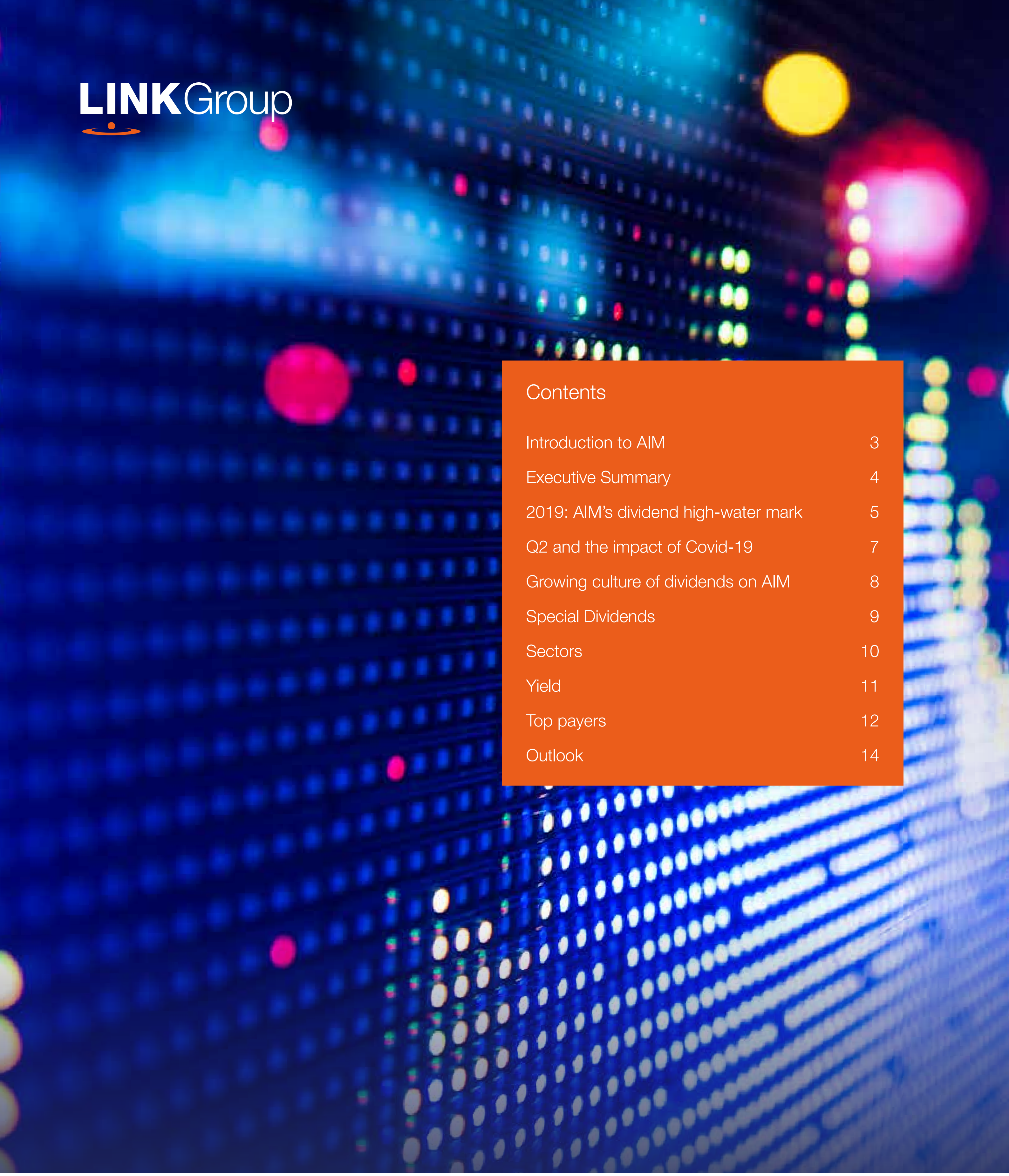
AIM
Dividend Monitor

Issue 3 | September 2020



Contents

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Introduction to AIM

The Alternative Investment Market (AIM) launched in 1995 with just ten companies and a total market value of £82m. Its mission is to provide 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. Now in its 26th year, AIM has 750 companies from the British Isles and another 89 international firms. At the end of June 2020, they had a collective market value of £97.4bn.

As AIM companies grow, they often seek promotion to the main market where they have access to a bigger pool of investors - for example, Diversified Oil & Gas, the largest AIM dividend payer in 2019, moved on to the main market in May 2020. More than 150 companies have made this journey over the last 25 years, four of them in 2019. Some also move in the other direction – in 2019, building materials company Alumasc made this change.

2019 saw few new companies listing in the UK, deterred by the political and economic uncertainty that gripped the country. Just 11 companies listed on AIM last year, down from 35 in 2018, following a similar trend on the main market. 2020 is suffering the same fate, this time compounded by the pandemic. By early July, just three companies had joined AIM since the beginning of the year.

There has been a general drift away from public stock markets across the developed world over the last 20 years. The number of listed companies has roughly halved since the late 1990s as companies have increasingly sought private sources of finance, especially in their early years. AIM has seen the same trend. Private equity funds took 12 AIM companies private over the last year. They are currently flush with cash and are eyeing the Covid-19 and Brexit-depressed valuations of AIM companies with interest, so we may see more delistings in the year ahead.

Dividend paying is much less common among AIM companies than their main-market counterparts, simply because they tend to be less mature companies still needing capital for growth. But AIM nevertheless presents interesting opportunities for income investors.

Executive Summary

2019 saw record dividends on AIM

- Payouts jumped to a record £1.33bn in 2019, up 16.7% year-on-year on a headline basis
- Excluding special dividends, AIM dividends rose 10.8%
- 35% of AIM companies paid in 2019, up from 26% in 2012 – by contrast four fifths of main-market companies distributed cash to shareholders

But double-digit growth petered out in Q4 2019 and Q1 2020

- Until 2019, every quarter bar two had posted double-digit dividend growth since our Monitor began
- In Q4 2019 and Q1 2020, AIM dividends were roughly flat year-on-year on a like-for-like basis

Q2 and the impact of Covid-19

- Q2 payouts fell by a third, even after allowing for one-off dividends, takeovers, and companies being promoted to the main market
- Two fifths of Q2 payers cancelled dividends outright and another tenth cut them, though some of the causes pre-dated Covid-19
- AIM dividends fell less than the main market, which saw underlying payouts halve – but this must be set in the context of annual underlying growth trend of 18% on AIM

Yield

- Over the next 12 months we expect AIM to yield 1.1% in a best-case scenario, or 0.7% in a worst-case scenario
- Adjusting for the large number that typically do not pay dividends, AIM will yield between 1.9% and 1.1% in a best- and worst-case scenario respectively

Top Payers

- Top 10 payers made up 27% of all AIM dividends in 2019, much less than the 48% paid by the main market top 10
- AIM therefore has superior income diversification

Outlook

- Uncertainty is unusually high over the outlook
- Our best-case scenario sees AIM dividends falling 34% to £873m on a headline basis
- Our worst-case sees them dropping 48% to £698m
- The recovery to previous highs is likely to be 2022 or 2023 at the earliest

2019: AIM's dividend high-water mark

2019 saw record dividends on AIM, but double-digit growth petered out in Q4 2019 and Q1 2020, even before Covid-19 caused big declines in Q2.

AIM dividends jumped to a new record in 2019, up 16.7% year-on-year to £1.33 billion on a headline basis[1], slightly ahead of our £1.30bn forecast. One-off special dividends were larger than we had allowed for, but underlying growth of 10.8% to a total £1.24 billion was in line with our expectations. The progress in AIM's payouts has been astonishing. Since 2012, they have more than tripled in value, equivalent to an annual growth rate of 18% over seven years, more than three times faster than the main market. The growth rate of AIM dividends is certainly rapid, but the amount paid by main-market companies is 80x larger. Last year if AIM were a single company, its total payout would have ranked 19th in the UK's dividend league table, just ahead of Prudential.

Despite the new record total in 2019, growth momentum drained away as the year progressed, as we cautioned last year that it would: each quarter saw successively slower dividend growth. In the last three months of 2019, underlying dividends did not grow at all, bringing 12 successive quarters of double-digit growth to a jarring halt on an underlying basis, though they rose slightly in headline terms. Until the end of 2019, AIM dividends had only registered two quarterly declines in at least seven years, with every other quarter posting an increase of at least 11%.

Even before the pandemic struck, late 2019 and 2020 were set to be different. The UK economy had already weakened significantly by the end of 2019 and corporate earnings among the UK's top 350 companies had been falling for several quarters. Dividends cannot outgrow profits indefinitely – and dividend cover ratios on the UK main market were already among the lowest in the developed world, falling to 1.4x in 2019 compared to the global 2.1x according to Henderson International Income Trust's July study[2] (a reading of 2x is considered desirable, though it varies according to sector and how mature a company is).

AIM companies tend to be more sensitive to the economic cycle because the sector complexion means defensive firms are relatively underrepresented. Industrials, financials, and resources companies feature prominently however. These groups find their profits rising and falling with the fortunes of the wider economy more than, say, tobacco or food producers, whose earnings are relatively insulated. On the main market, roughly half the total payout comes from defensive sectors, but on AIM just one quarter does. The rest are more exposed.

The first quarter of 2020 already appeared to show some weakness. AIM dividends dropped 24.1% on a headline basis to £197.4m, though this decline was artificially exaggerated by far lower special dividends. These were 92% lower at just £5.1m, but one-off specials are even more variable on AIM than they are on the main market so it's important to look at the underlying picture. At £187.7m, underlying dividends were 4.1% lower, thanks mainly to companies being taken over (eg Elegant Hotels, Sanderson Group, and Telford Homes) or being promoted to the main market (eg Redde). Most companies increased or held their dividends steady, but by much less than the year before, so that on a like-for-like basis the Q1 total was flat or fractionally up.

> "Double-digit growth turned to sharp decline as pandemic struck."

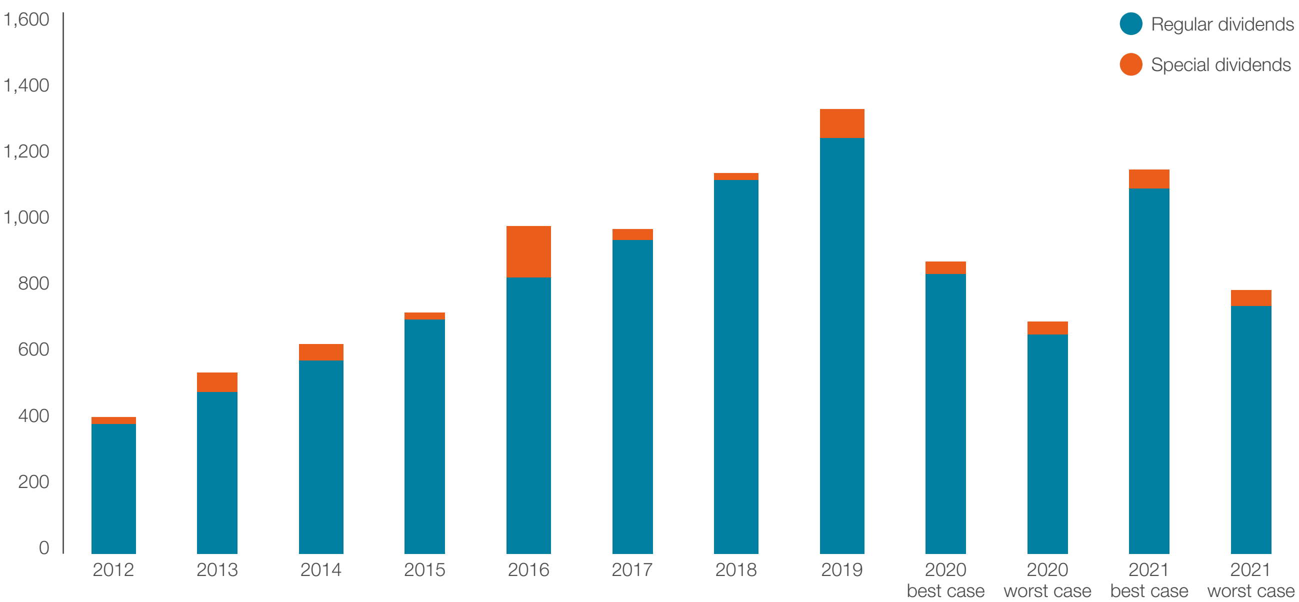
1. Headline dividends include one-off specials. Underlying dividends exclude them.
2. Henderson International Income Trust Global Dividend Cover Report July 2020.

Overview

	Regular Dividends £m	Special Dividends £m	Total Dividends £m
2012	387.3	27.5	414.8
2013	482.3	61.5	547.0
yoy	*25%*	*124%*	*32%*
2014	582.9	46.2	633.3
yoy	*21%*	*-25%*	*16%*
2015	700.0	21.6	728.6
yoy	*20%*	*-53%*	*15%*
2016	825.0	157.0	990.1
yoy	*18%*	*626%*	*36%*
2017	944.5	25.9	970.5
yoy	*14%*	*-83%*	*-2%*
2018	1,121.6	17.7	1,139.2
yoy	*19%*	*-32%*	*17%*
2019	1,243.0	86.1	1,329.1
yoy	*11%*	*388%*	*17%*
2019 H1	595.0	66.7	661.7
yoy	*17%*	*564%*	*28%*
2020 H1	426.6	37.6	464.2
yoy	*-28%*	*-44%*	*-30%*

AIM dividends 2012-2020

£ Millions



Q2 and the impact of Covid-19

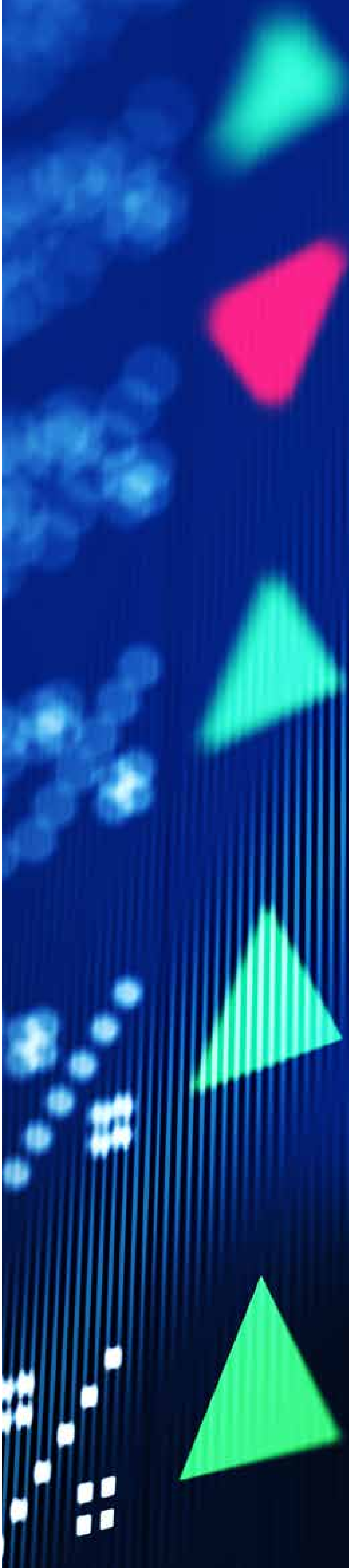
The second quarter usually marks a seasonal high point for AIM dividends, so what happens in this period is very important for the whole year. It was also the quarter when companies began to react to the chilling effect of the Government's lockdown policy. Q2 AIM payouts fell by an unprecedented 33.6% on a headline basis to £266.8m. Special dividends supported the headline total. At £33m, they were almost five times larger than Q2 2019. Excluding specials, dividends fell 40.6% to £234.3m, a level last seen in mid-2016. The £107m decline was exaggerated by the promotion of Diversified Oil & Gas to the main market, and the takeover of SafeCharge and Manx Telecom. However, on a like-for-like basis the decline was still over 33% year-on-year.

Two fifths of Q2 payers cancelled their dividends outright while another tenth reduced them year-on-year. Not all of these were due to Covid-19 however. For example, the biggest impact came from Eddie Stobart group, which was saved from administration late in 2019 by a capital injection from investors, but which naturally will not pay dividends during its turnaround period. The group was one of AIM's top payers in 2018 and 2019 and accounted for one sixth of the total decline. Central Asia Metals also scrapped its payout for reasons of tough trading, unrelated to the pandemic. Burford Capital, the second largest payer in Q2 2019, scrapped its dividend and reallocated the capital saved to its financing arm.

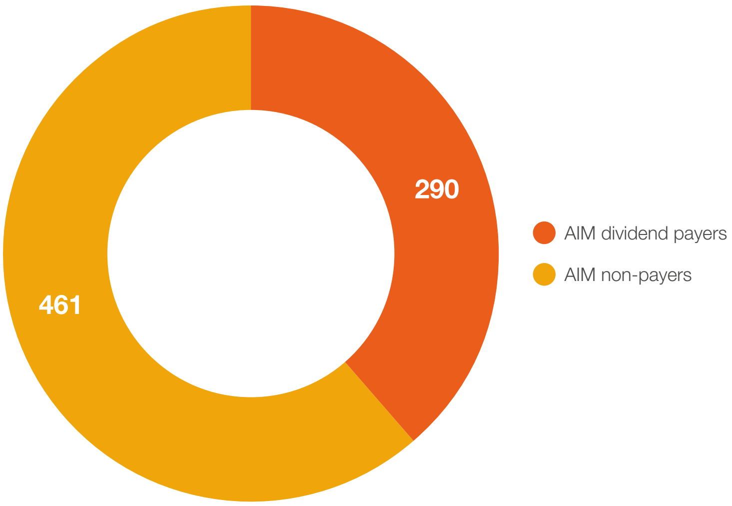
The impact on AIM dividends was far less than on the main market, which saw the underlying total halve in Q2. Mid- and small-cap companies on the main market were particularly affected, so on the face of it, it seems surprising that AIM escaped relatively unscathed. But it is important to view the decline in the context of the rapid long-term growth trend in AIM dividends. This has been 18% on an underlying basis for AIM in recent years, so a drop of a third is very large. What's more, only a minority of AIM companies pay dividends at all (see page 8) and those that do will tend to be the ones with deeper pockets. Lower payout ratios in the first place play a role too, as growth companies tend to pay lower dividends in the early days. We think it's likely that AIM companies may also have simply been slower off the mark than larger UK plcs, which reacted with lightning speed in cancelling payouts. This may well mean a delayed impact over the coming quarters, not least as the hit to profits becomes a reality rather than a prospect.

"It is important to view this quarter's decline in the context of the rapid long-term growth trend in AIM dividends. This has been 18% on an underlying basis for AIM in recent years, so a drop of a third is very large."

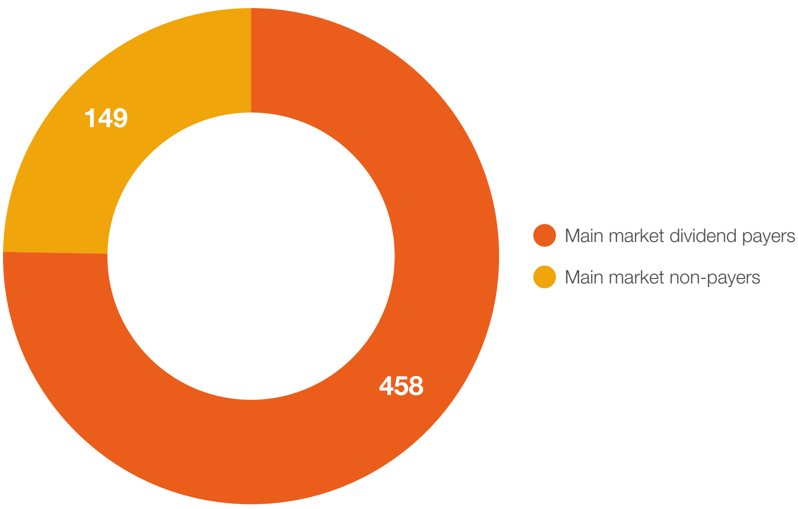
Growing culture of dividends on AIM



AIM 2019

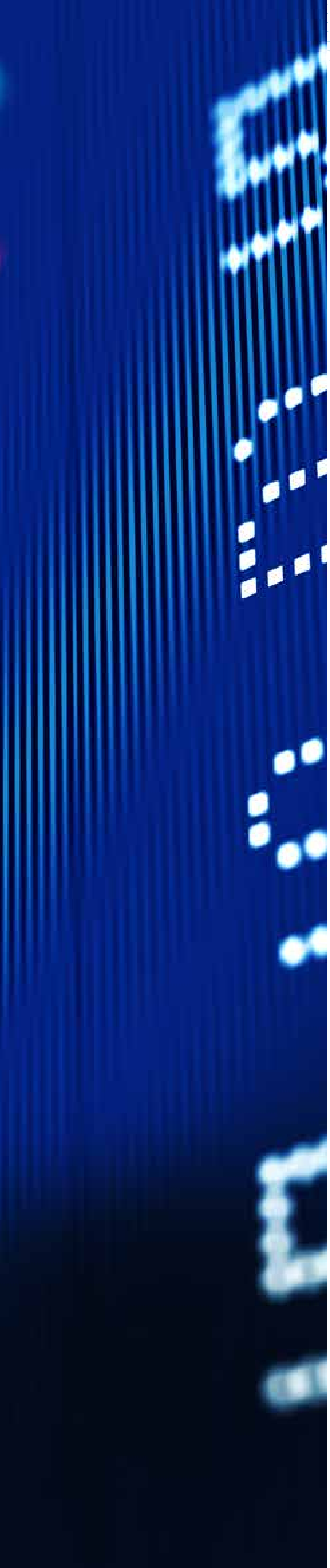


Main Market 2019



A culture of dividend paying has been growing on AIM. In 2019, 290 companies distributed cash to shareholders, up from 263 in 2018. The proportion paying dividends has grown from 26% in 2012 to 35% last year. This compares to 80% on the main market.

2020 will see a break in this trend as the pandemic wreaks its unprecedented disruption on all walks of life. It will take time for a full recovery to take place, but we would expect 2020 to mark only a temporary low point.



Special Dividends

Companies on AIM are around half as likely as main-market firms to pay special dividends, even after adjusting for the lower likelihood of dividends of any kind on the junior market. Typically, around one in twenty AIM dividend payers distributes a one-off special in any given year, compared to one in ten on the main market. Special dividends are usually declared after a major disposal or a merger, or because profits have been unusually large for an extended period. Because AIM companies tend to be earlier in their growth journey, surplus capital is quite a rare commodity, so it makes sense that there are fewer specials. Since 2012, AIM specials have topped up £1 for every £11 of regular dividends, similar to the main market.

The first half of 2020 was relatively normal for AIM specials. A total of £37.6m was paid, most of which came from San Leon Energy. The cash-rich oil explorer, which only began paying in late 2019, recently committed to continuing dividend payments, even though oil prices have declined sharply and majors like Shell have made steep cuts.

For the rest of 2020 and into 2021, special dividends are likely to virtually disappear as companies hunker down to face the recession. They will seek to preserve cash and protect balance sheets until the economic recovery sets in.

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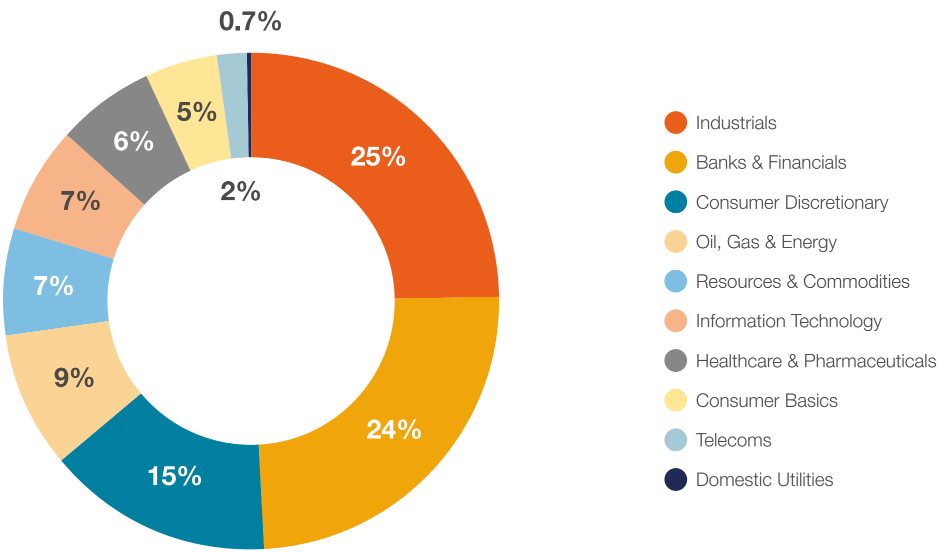
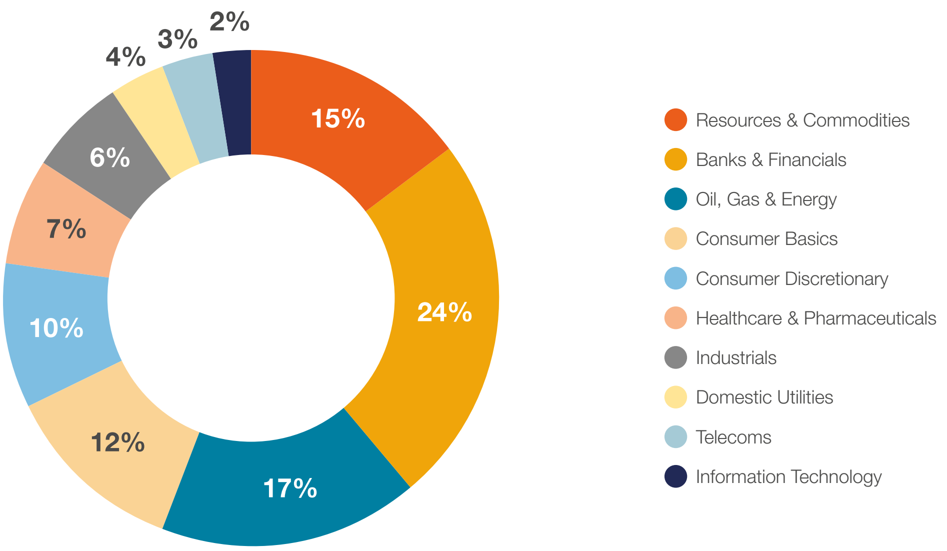
Sectors

AIM dividends by sector – 2019

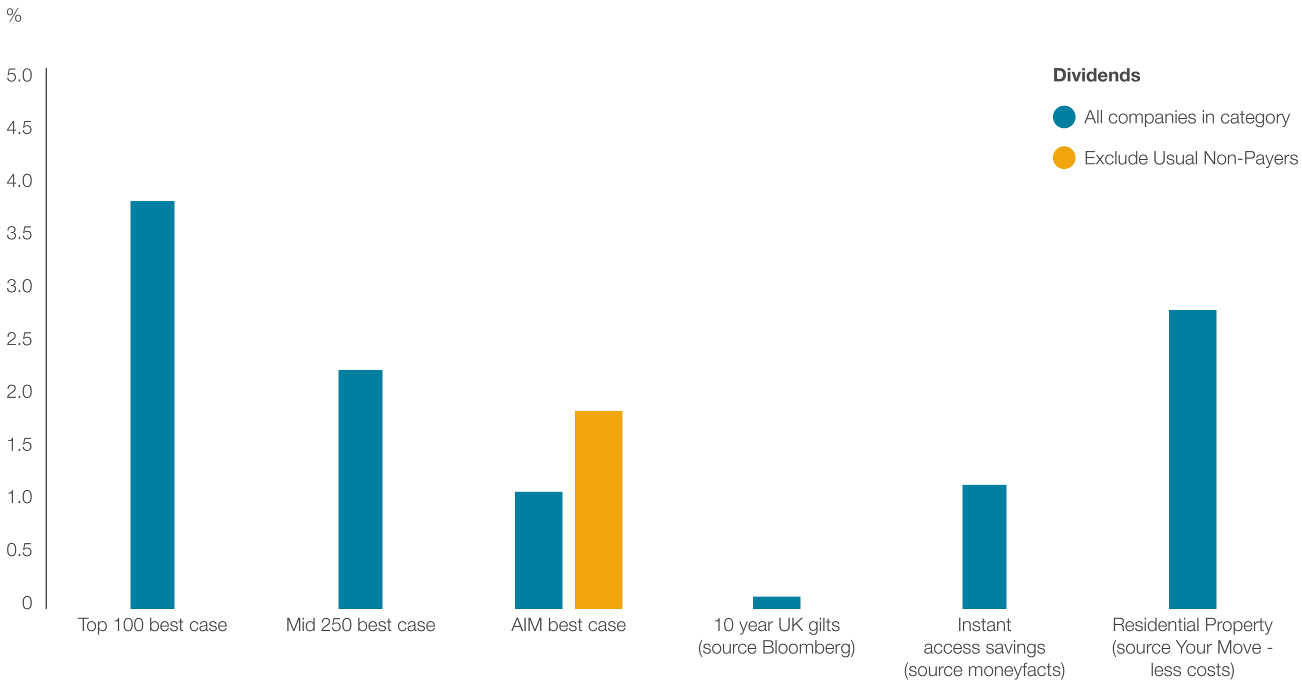


Main market dividends by sector – 2019



Yield

UK Yield - Next 12 months



A company's yield is the relationship between the income it pays and its share price. It describes how much income a shareholder gets for each pound invested. Over the last decade, equities in the UK have consistently yielded more than both fixed income and cash owing to persistent rock-bottom interest rates. The UK is a very high-yielding market compared to its peers, mainly thanks to some very large dividend payers. 2020 has led to a significant rebasing of UK payouts at a lower level, with Shell, the world's largest dividend payer in recent years, cutting by two thirds and setting its dividend policy onto a more sustainable footing. According to our most recent UK Dividend Monitor, the main market will yield 3.6% over the next 12 months if our best-case scenario materialises, or 3.3% if our worst-case does.

AIM is a lower-yielding market, even in normal times. Over the next 12 months, we expect AIM shares to yield 1.1% on a best-case basis or 0.7% in the worst-case. This figure is artificially distorted by the two thirds of AIM companies that do not normally pay dividends, however. If we exclude these (but not those that only dropped out in 2020), then the best-case yield is 1.9% and the worst case 1.1%.

Top payers

Diversified Oil & Gas was AIM's largest dividend payer in 2019, having only conducted its IPO in 2016. In 2017 it paid just £4.4m but this had swelled to £58.6m last year. This means it contributed one eighth of the growth in AIM dividends between 2016 and 2019. It has now left AIM for the main market, so its departure will leave a hole worth around £1 in every £21 of AIM dividends paid.

Last year, the top ten payers accounted for just over a quarter (27%) of AIM dividends, in line with the average of the last decade. This is far less concentrated than the main market where the top ten consistently made up half of all payouts in 2019. It is more similar to the 250 mid-caps. In future the main market will be less dependent on a few large companies, thanks to cuts from the biggest payers rather than growth elsewhere, but AIM will continue to offer greater income diversification, even if it cannot match the income power of bigger companies.

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	414.8	Total AIM Dividends	547.0	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%

“Last year, the top ten payers accounted for just over a quarter (27%) of AIM dividends, in line with the average of the last decade. This is far less concentrated that the main market where the top ten consistently made up half of all payouts in 2019.”

2016	£m	2017	£m	2018	£m	2019	£m
Arbuthnot Banking Group Plc.	52.9	Highland Gold Mining	33.8	Highland Gold Mining	37.1	Diversified Gas & Oil Plc	58.6
Juridica Investments	44.1	Redde plc	32.2	Redde plc	35.5	Bowleven	49.1
James Halstead plc	41.2	James Halstead plc	27.0	Secure Income REIT Plc	33.1	Highland Gold Mining	43.2
Redde plc	28.3	Secure Income REIT Plc	25.0	Central Asia Metals Plc	29.0	Secure Income REIT Plc	42.0
NewRiver REIT Plc	26.2	Polar Capital Hldgs Plc	22.9	James Halstead plc	28.1	Polar Capital Hldgs Plc	31.7
Highland Gold Mining	24.4	Conviviality Plc	21.8	Polar Capital Hldgs Plc	26.2	iEnergizer Ltd	29.7
Polar Capital Hldgs Plc	22.7	Abcam	20.8	Abcam	24.6	James Halstead plc	29.1
Abcam	18.1	Central Asia Metals Plc	18.4	Eddie Stobart Logistics Plc	21.6	Central Asia Metals Plc	25.5
Empyrean Energy	17.5	Emis Group Plc	15.6	SafeCharge International Group Limited	19.8	Abcam	25.0
Pan African Resources Plc	17.1	M.P. Evans Group Plc	15.4	Burford Capital Limited	18.6	Burford Capital Limited	22.2
Top 10 Total	**292.5**	**Top 10 Total**	**232.8**	**Top 10 Total**	**273.8**	**Top 10 Total**	**356.1**
Total AIM Dividends	990.1	Total AIM Dividends	970.5	Total AIM Dividends	1,139.2	Total AIM Dividends	1,329.1
Top 10 as % of all dividends paid	30%	Top 10 as % of all dividends paid	24%	Top 10 as % of all dividends paid	25%	Top 10 as % of all dividends paid	27%

Outlook

The pandemic is causing the most severe economic disruption since the second world war. It is not yet clear how bad the damage will be, but it looks likely that the recovery, after an initial snap-back, will be long and slow before all the lost ground is made up in the UK. EY's Item Club recently suggested this might take until 2024[3]. Inevitably this will impact on dividends since they are distributed from the profits companies make.

2020 will take the biggest hit. Our estimates come with a health warning, given the relative lack of visibility in AIM dividends and the unusually large uncertainty in the wider environment. We expect total payouts to drop by 34% on a best-case basis to a headline £873m, slightly better than our best-case scenario for the main market. This would reduce AIM's dividends to a level last seen around the middle of 2016. Our worst-case scenario sees them falling by 48% to £698m, a level last seen in late 2014.

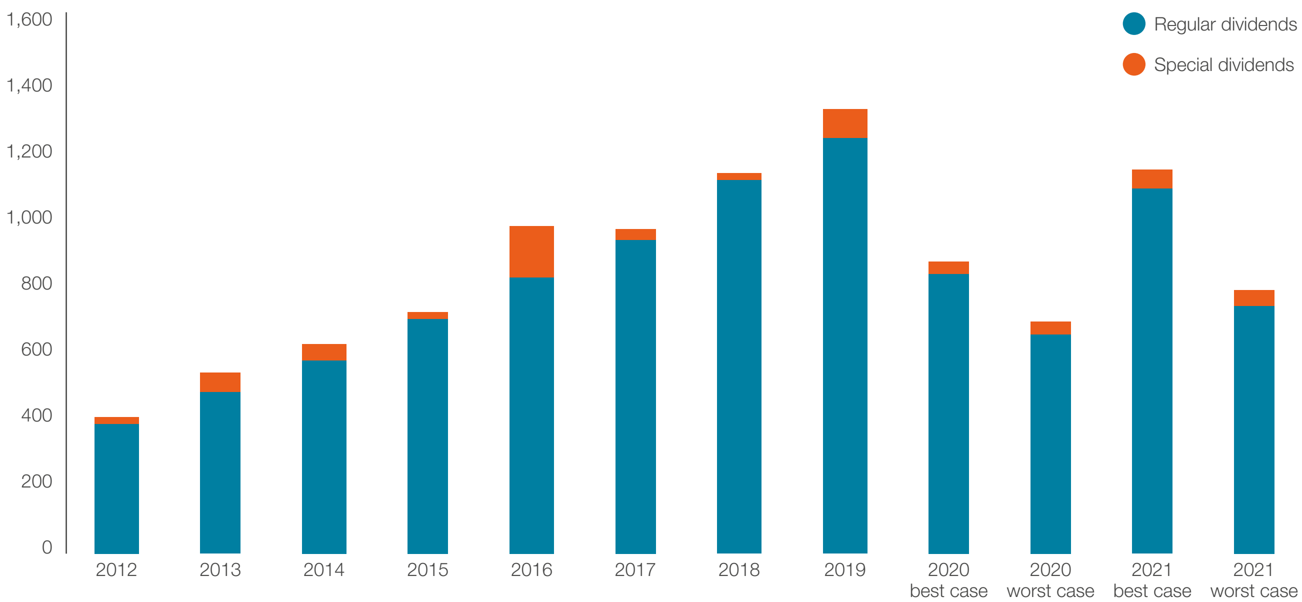
They will certainly bounce back in 2021, but even if they return to trend growth thereafter, they are unlikely to top 2019 until 2022 or 2023 at the earliest. This AIM recovery will be faster than on the main market, where it will take time to make up for the loss of £7.8bn from Shell alone.

Crucially, the true value of a company is the sum of its dividends over its lifetime, plus whatever you can get at the end when you wind up the assets. So while a bad year is painful in the short term, in the longer-term context its impact is far less severe.

And just because AIM is small, there is no reason not to recognise the potential of many of its companies to deliver a good income over time.

AIM dividends 2012-2020

£ Millions



3. EY Item Club forecast July 2020

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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