Three attractive Aim stocks

A professional investor tells us where he'd put his money. This week: Chris Boxall of Fundamental Asset Management

Aim, the London Stock Exchange's market for smaller growing companies, has just celebrated its 21st birthday. I invest in Aim with an eye on the attractive inheritance tax planning (IHT) benefits (investments in certain qualifying Aim shares are exempt from IHT if held for more than two years). I focus on well-established businesses, of which there are now a large number on Aim. This doesn't mean I am constrained to invest in low-growth plodders, as the majority of companies I follow are growing earnings strongly as well as generating plenty of cash. While I follow traditional valuation metrics, I also have to be mindful that the business models and balance sheets of these innovative businesses are inclined to rapid change should growth opportunities arise.

RWS Holdings (Aim: RWS) is the world's leading provider of high-quality translation and intellectual property support services. RWS generates operating margins of more than 24%, attractive cash flow and high returns on equity. It has redeployed cash in earnings-enhancing acquisitions and rewarded shareholders with a consistently growing dividend. It was in a strong net cash position for many years, but everything changed in 2015 with the large acquisition of Corporate Translations, which consumed all the group's cash and moved it into a net debt position for the first time in many years. However, with the group's executive chairman holding 42% of the shares, I am reassured that shareholders' interests are well aligned with those of management.

Smart Metering Systems (Aim: SMS) connects, owns and maintains metering systems and databases on behalf of major energy companies. SMS is starting to provide domestic smart meters as part of the UK government's smart-meter programme, which requires domestic energy supply firms to provide all of their customers with a smart meter in houses and small businesses across the UK by 2020. The shares trade at a seemingly rich earnings multiple of approximately 23 times estimated 2016 earnings. However, it's rare to find a small business on Aim that offers this level of reliability of earnings and cash delivery, with such a strong position in a market that provides huge growth potential.

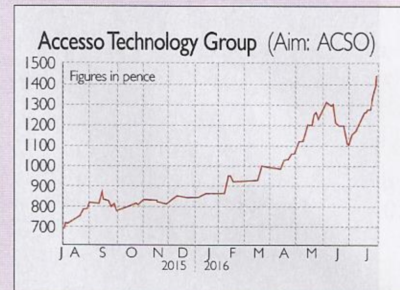
Character Group (Aim: CCT) designs, manufactures and distributes "licensed character" products and has had notable success with Peppa Pig, Little Live Pets, Scooby Doo, and Teletubbies licences. The management is highly experienced in the sector, but it's the effective deployment of capital and cash that has been most impressive to us. Free cash flow has averaged £8.5m per annum over the past ten years, equating to a free cash-flow yield of 7.5% at the current share price. This strong cash flow has supported growing dividends and regular share buybacks. A new licensed character is Stretch Armstrong, around whom a new TV series is being developed, and the group is also seeing strong demand for its Teletubbies products.

The stocks Chris Boxall likes

	12mth high	12mth low	Now
RWS	270p	124p	251p
SMS	460p	305p	446p
CCT	572p	425p	470p

If only you'd invested in…

Accesso Technology Group (Aim: ACSO) makes ticketing and "virtual queueing" systems for theme parks and other public attractions. Business is brisk: in 2015, Accesso signed an agreement with Merlin Entertainments to use its products across all Merlin's sites. Revenue has risen by 24% in the last year and profits by 41%. Since floating on Aim in 2002, the share price has risen by more than 1,400% – and by 170% in the last 12 months.



Be glad you didn't…

Hugo Boss (Frankfurt: BOSS) is a German fashion retailer going through tough times. Its CEO resigned in February this year after it issued its second profit warning in six months. In the first quarter of 2016, earnings before tax were down by almost 50% on the same period the previous year, and full-year earnings before interest, taxes, depreciation and amortisation are forecast to be in "low double-digit decline". It's considering closing stores to cut costs. The shares have fallen by over 50% since their peak in April 2015.