

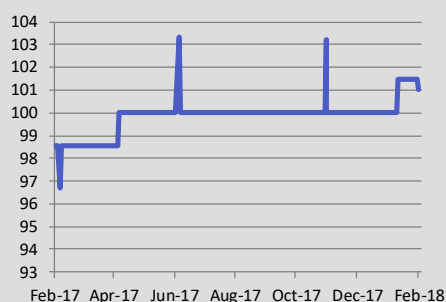
APQ GLOBAL INVESTMENT COMPANIES

APQ.L

101.0p

Market Cap: £78.8m

SHARE PRICE (p)



12m high/low

103.3p/96.7p

Source: LSE Data

KEY INFORMATION

Enterprise value	£105.4m (FY18E est)
Index/market	TISE, AIM
Next news	Q1 '18 update, 15 Apr '18
Gearing	35%
Interest cover	6.6x (FY18E est)

 APQ GLOBAL IS A RESEARCH CLIENT OF
 PROGRESSIVE

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2017 milestones achieved, well set for 2018

APQ Global (APQ) achieved an increase in its US Dollar book value of 4.6% in 2017 while making a total return of 9.9% in dollar terms during the year. With economic growth and commodity prices among the supports for emerging markets, APQ looks well positioned for 2018. Payment in March of the 1.5p dividend declared for Q4 will mean that APQ meets its targeted 6% dividend for 2017. APQ will switch to US Dollar presentation of its accounts – its functional currency – with its FY 2017E results. Its end-December 2017 book value was 128.11c and this had grown to 135.58c by the end of January 2018. The Company issued a further £10.2 million of 3.5% convertible unsecured loan stocks (CULS) at a 3% premium to par value in January - increasing gearing and offering the opportunity to enhance returns during 2018. We adjust estimates (which remain in Sterling until the results) to reflect the CULS issue and anticipated deployment of the proceeds.

- During 2017, APQ paid four dividends (one for Q4 2016) totalling 5p per share (6.53c) and its US Dollar book value rose 5.59c to \$1.281 per share. It will meet its targeted dividend yield of 6% (on APQ's original issue price) for 2017. With increased gearing and Dollar reporting to be instituted, we are now estimating a maintained dividend of 6p for the next two years (previously we included an increase based on opening book value). Dividend payments are well covered by economic income from the portfolio. We await an update on policy with the prelims.
- Management believes that 2018 will continue to be supportive of emerging markets, expecting potential GDP growth from these geographies to continue to outpace that of G7 countries. APQ anticipates that commodity prices will be likely to support economies such as Brazil, Russia and South Africa.
- During 2017, credit exposure generated a 6.88% return, equity investments 5.78% and fixed income exposure also contributed 5.78%. EM Currency exposure lost 8.54%. Taking into account the adjustment for the CULS issuance and the dividends paid, APQ returned 9.9% in US Dollar terms to its shareholders in 2017.
- At the end of the year, APQ's overall emerging markets exposure was 66.5% of Book Value in credit and government bonds, 25.7% in equities and 25.1% in local currency bond exposure while cash accounted for 20%. The total of 137.7% reflects deployment of the September CULS proceeds. During the fourth quarter of 2017, APQ gradually increased its exposure to currencies and credit. We have assumed that the latest CULS issuance is fully deployed during Q1 2018.

N.B. Our estimates are based on the Company generating sufficient income to cover the payment of a dividend of 6p, operating expenses and the CULS coupon. Actual results will reflect the evolution of the portfolios.

FYE DEC (£M)	2016	2017E	2018E	2019E
Revenue	0.0	5.9	8.2	8.6
Adjusted EBITDA	-0.4	5.0	6.9	7.3
Adjusted PBT	-0.4	5.0	5.9	6.3
Adjusted EPS (p)	-0.5	6.4	6.5	6.9
EV/Adj. EBITDA	n.a.	21.1x	15.2x	14.4x
P/E	n.a.	16.9x	15.5x	14.7x
Dividend yield	0.0%	5.9%	5.9%	5.9%

Source: Company Information and Progressive Equity Research estimates

Q4 and Full Year 2017 performance

Move to US Dollar accounting will add clarity

APQ ended the fourth quarter with a book value of 94.67p or 128.11c (up 5.59c) in US Dollar terms. As we note earlier, the switch to US Dollar accounting will give the Company the opportunity to report its numbers and performance in its functional currency. APQ Global returned 9.9% in US Dollar terms for 2017.

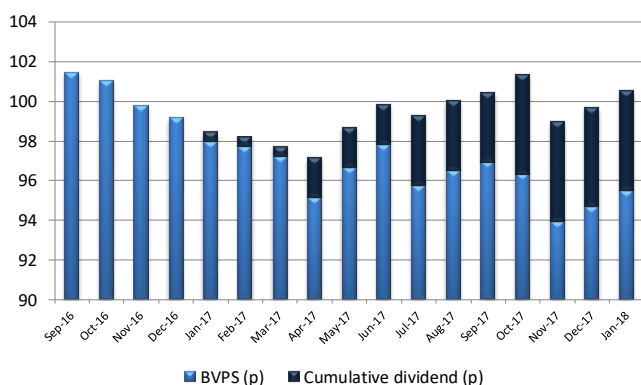
APQ declared a further 1.5p dividend for Q4 2017 making a total of 6.0p declared for the current financial year so far. The shares are already ex that Q4 dividend and, with payment on 2 March, APQ will achieve its 6% target dividend based on the issue price.

At the end of the year, APQ's overall emerging markets exposure was 66.5% in credit and government bonds, 25.7% in equities and 25.1% in local currency bond exposure while cash accounted for 20%. The total of 137.7% reflects investment of the proceeds of the September CULS proceeds.

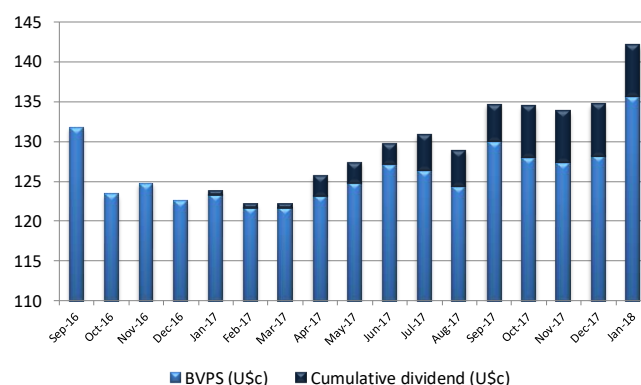
Book value and dividend payments

At the current share price, the Company is trading on a Price/BVPS of 0.98x. The charts below show Book Value per share in Sterling and US Dollars with dividend payments shown at the exchange rates as at the months of payment. The effect of strengthening sterling against the US Dollar during 2017 can be seen in its impact on the relative returns. The Book Value at the end of January 2018 contains the as-yet-unpaid Q4 2017 dividend of 1.5p/2.1c.

Book Value per share and cumulative dividends (p)



Book Value per share and cumulative dividends (U\$c)



Source: APQ Global, Progressive Equity Research

Dividend policy

As we note above, with the 1.5p payment of the Q4 2017 dividend in March 2018, APQ will meet its targeted dividend yield of 6% (on APQ's original issue price) for 2017. With increased gearing and Dollar reporting to be instituted, we are now estimating a maintained dividend of 6p for the next two years where previously we had included dividends based on 6% of the opening book value of the portfolio. Dividend payments are well covered by economic income from the portfolio. We await an update on APQ's dividend policy with the final results.

Further CULS issue

In Q3 2017, APQ issued £20.09 million of CULS to raise additional funds for investment. Placing proceeds were used for investment in line with the Company's existing business strategy. The Company saw the issue as providing efficient gearing at a competitive cost which will benefit ordinary shareholders through enhanced returns. In addition, the CULS should eventually improve liquidity for APQ which currently has an effective 7% free float. Following that successful issue, APQ raised a further £10.2 million through the issue of 1,982 units at an issue price of £5,150 per unit – a 3% premium to par value. The Board said that the new placing strengthened its confidence that 'employing gearing on this basis will enable the Company to generate increased total returns over the longer term'. The Directors intend to apply the £9.8 million net proceeds in line with the Company's business and investment strategy. We have updated our diluted earnings numbers to reflect the potential dilution of the CULS, reducing fully diluted EPS by around 11% assuming conversion of all CULS.

As with the original issue, the interest rate on the CULS is 3.5% per annum, payable quarterly in arrears on the nominal amounts, with the first interest payment due in early April 2018 for the period from Admission to 31 March 2018. Again, holders will be entitled to convert their CULS into Ordinary Shares on a quarterly basis throughout their life, commencing 31 March 2018. All outstanding CULS will be repayable at par (plus any accrued interest) on 30 September 2024. The initial conversion price is 105.358 pence, being a 10 per cent. premium to the unaudited Book Value per Ordinary Share on 31 July 2017.

Portfolios

At the end of 2017, APQ's exposure was in credit and government bonds (66.5% of book value), equities (25.7%), Emerging Markets (EM) local currency bond exposure (25.1%) and cash (20.1%). NB: percentages reflect, *inter alia*, currency exposure and investment of CULS proceeds. This represented a reduction in the proportion of equities and an increase in the other three asset classes since the end of the previous quarter.

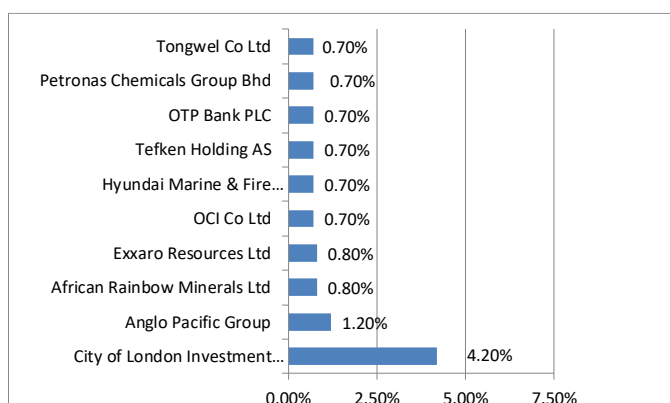
% of book value by asset class

	Jun-17	Sep-17	Dec-17
Credit and government bonds	55.0%	60.7%	66.5%
EM Local Markets	13.5%	16.2%	25.1%
Equities	22.6%	60.4%	25.7%
Cash	10.0%	13.4%	20.0%
	<u>101.1%</u>	<u>150.7%</u>	<u>137.3%</u>

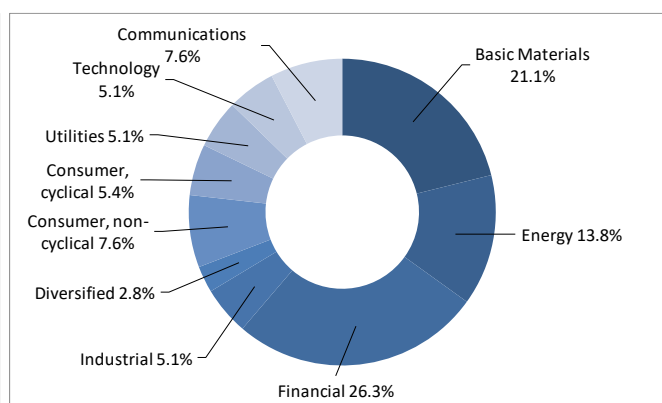
Source: APQ Global

The chart below left shows the Company's top 10 equity holdings as at the end of Q4 2017. Maintaining its bullish view on commodities, the largest EM equity positions are now in China and South Korea. Russia remains a focus and the next largest position is in South Africa. The top 10 holdings still include two of the Company's strategic investments in Anglo Pacific Group and City of London Investment Group with the other holdings spread across individual investments. The breakdown by sector predominantly remains focused on basic materials, energy, industrials and financials, (see chart below right). The Company believes that the global economic growth outlook will continue to be supportive of commodity markets and that EM equities offer compelling value.

Top 10 Equity holdings Q4 2017 as % of book value



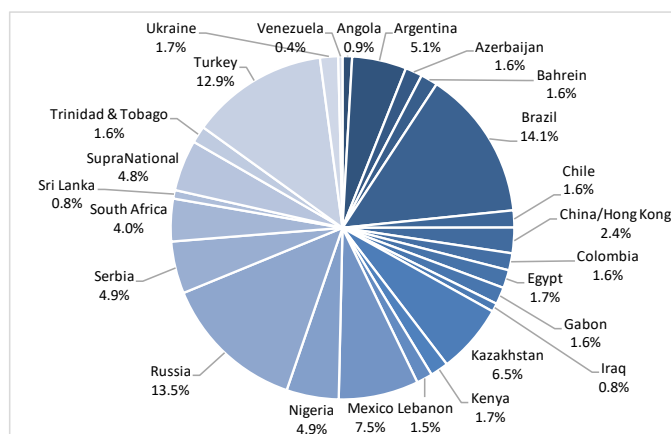
Equity exposure by sector



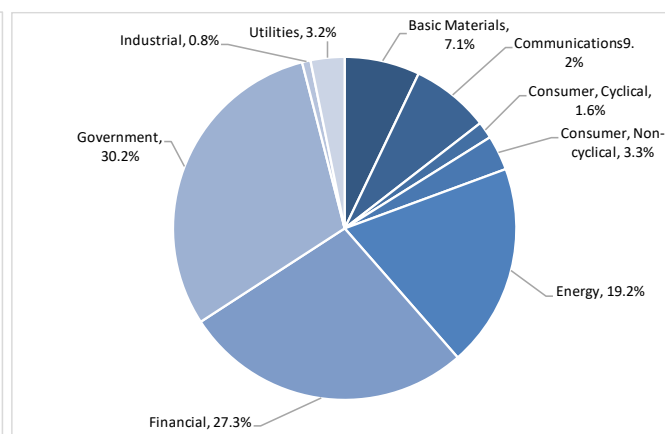
Source: APQ Global

The Company's emerging markets credit book is well diversified for stable income growth and the largest position is Serbian sovereign risk, accounting for 3.1% of book value. At the end of 2017, credit and government exposure accounted for 66.5% of book value. The chart below shows that Brazil (14.1%), Russia (13.5%) and Turkey (12.9%) remain the largest country exposures although we note that exposure to Nigeria reduced over the final quarter of 2017. In terms of sector exposure, credit exposure remains concentrated in government entities, banks and corporations in the energy sector.

Credit exposure by country



Credit exposure by sector



Source: Progressive Equity Research

During the quarter, the Company significantly paired its direct currency exposure. The largest long positions were held in the Brazilian Real (11.8%) and the South African Rand (3%).

Stress tests

The Company's cautious stance is reflected in its low sensitivity to overall market movements.

APQ has published stress tests quarterly since June 2017. The December 2017 stress test indicated that the Company would marginally lose 0.43% of book value for a 10% sell-off in the S&P equity index, drop 0.96% in value if credit spreads were to widen 10% and lose 2.90% in value if interest rates in the US were to increase by 1%. The change in the results of the stress tests over the period reflect the evolution of the portfolio exposures.

Stress tests

Scenario	Jun-17	Sep-17	Dec-17
Equity Stress Test (S&P -10%)	0.28%	-0.38%	-0.43%
Credit Stress Test (Credit Spreads up 10%)	-0.62%	-0.93%	-0.96%
Interest Rate Spreads (Yields up 1%)	2.58%	-1.02%	-2.90%

Source: APQ Global

For a summary of risks, please see our previous notes on APQ which can be found on our website: <http://www.progressive-research.com/tearsheet/research/apq-global-ltd>

Strategic Portfolio

During the final quarter of 2017, the Company made a US\$10 million investment in the Oppenheimer Emerging Markets Local Debt UCITS Fund. The Fund was launched in October 2017 and invests mainly in local currency denominated debt securities of government and corporate issuers in emerging market countries. The investment gives APQ exposure to a diverse pool of local markets debt instruments.

In addition, the Company has maintained its investment in City of London Investment Group ('CLIG') representing 4.2% of its overall book value. APQ Global believes that the positive outlook for the EM equity asset class, the prudent management and an attractive dividend yield bode well for the CLIG stock price. During 2017, the Company generated a 24.2% return on its CLIG investment.

We note that CLIG's January trading update for its first half to the end of December 2017 stated that its emerging markets strategy underperformed over the period due to widening discounts and an underweight position in the Chinese IT sector which posted very strong returns. Importantly, though, net flows were positive in aggregate over the period and it had received notification of US\$110 million net inflows in aggregate across all strategies, which it expects to fund over Q1 2018.

As previously reported, APQ also holds 3.1% and 4.1% respectively in two publicly listed EM debt funds (EMD US and EDD US). The Company made a 13.8% and 16.2% return respectively on these investments during 2017. APQ's small stake in Anglo Pacific Group generated a 26.5% return.

Direct Investment Portfolio

The Company is currently evaluating various business opportunities with a focus on EM which are undergoing a process of due diligence and takes a cautious approach to such investments. The Company will update shareholders in due course on its progress with these potential investment opportunities.

Financial summary

PROFIT & LOSS	FY-16A	FY-17E	FY-18E	FY-19E
Revenue	0.0	5.9	8.2	8.6
Adj EBITDA	(0.4)	5.0	6.9	7.3
Adj EBIT	(0.4)	5.0	6.9	7.3
Reported PBT	0.6	5.7	10.1	10.8
Fully adj PBT	(0.4)	5.0	5.9	6.3
NOPAT	(0.4)	5.0	6.9	7.3
Reported basic EPS (p)	0.7	7.3	12.9	13.8
Fully adj diluted EPS (p)	(0.5)	6.0	6.5	6.9
Dividend per share (p)	0.0	6.0	6.0	6.0
CASH FLOW & BALANCE SHEET	FY-16A	FY-17E	FY-18E	FY-19E
Operating cash flow	(0.3)	4.7	7.0	7.3
Free Cash flow (£m)	(0.3)	4.7	6.0	6.3
FCF per share (p)	(0.4)	5.7	5.6	5.9
Acquisitions	(58.5)	0.0	0.0	0.0
Disposals	0.0	0.0	0.0	0.0
Shares issued	59.7	0.0	0.0	0.0
Net cash flow	0.9	1.2	1.3	1.6
Overdrafts / borrowings	0.0	(19.5)	(30.0)	(30.0)
Cash & equivalents	0.9	2.1	3.4	5.0
Net (Debt)/Cash	0.9	(17.4)	(26.6)	(25.0)
NAV AND RETURNS	FY-16A	FY-17E	FY-18E	FY-19E
Net asset value	77.4	79.6	85.0	91.0
NAV/share (p)	99.2	101.9	108.9	116.6
Net Tangible Asset Value	77.4	79.6	85.0	91.0
NTAV/share (p)	99.2	101.9	108.9	116.6
Average equity	38.7	78.5	82.3	88.0
Post-tax ROE (%)	1.4%	7.3%	12.3%	12.2%
METRICS	FY-16A	FY-17E	FY-18E	FY-19E
Revenue growth	<i>n.a.</i>	<i>n.a.</i>	38.5%	5.3%
Adj EBITDA growth	<i>n.a.</i>	<i>n.a.</i>	38.8%	5.3%
Adj EBIT growth	<i>n.a.</i>	<i>n.a.</i>	38.8%	5.3%
Adj PBT growth	<i>n.a.</i>	<i>n.a.</i>	18.6%	6.8%
Adj EPS growth	<i>n.a.</i>	<i>n.a.</i>	8.7%	5.3%
Dividend growth	<i>n.a.</i>	<i>n.a.</i>	0.0%	0.0%
Adj EBIT margins	<i>n.a.</i>	84.8%	85.0%	85.0%
VALUATION	FY-16A	FY-17E	FY-18E	FY-19E
EV/Sales	<i>n.a.</i>	17.9	12.9	12.3
EV/EBITDA	(255.6)	21.1	15.2	14.4
EV/NOPAT	(255.6)	21.1	15.2	14.4
PER	<i>n.a.</i>	16.9	15.5	14.7
Dividend yield	0.0%	5.9%	5.9%	5.9%
FCF yield	-0.4%	5.6%	5.6%	5.9%

Source: APQ Global, Progressive Equity Research estimates

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