

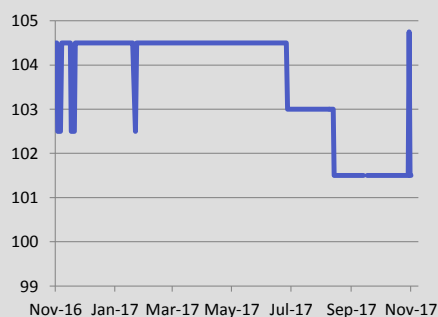
## APQ GLOBAL INVESTMENT COMPANIES

### APQ.L

101.5p

Market Cap: £79.2m

#### SHARE PRICE (p)



12m high/low

104.75p/101.5p

Source: LSE Data

#### KEY INFORMATION

Enterprise value	£96.6m (FY17E est)
Index/market	TISE, AIM
Next news	Q1 2018 update
Gearing	23%
Interest cover	9.8x (FY18E est)

APQ GLOBAL IS A RESEARCH CLIENT OF  
PROGRESSIVE

#### ANALYSTS

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### Good progress, dividend on track

APQ Global (APQ) remains on track to pay a 6% dividend for FY 2017E. Its Q3 comment and its outlook for Q4 2017 provided an informative update on the progress of APQ and its portfolios. During the third quarter, APQ issued £20.09 million of Convertible Unsecured Loan Stock (CULS), the proceeds of which have already been fully invested. APQ ended October 2017 with a book value of 96.3p ex the Q3 2017 dividend of 1.5p (making a total dividend of 4.5p for the current financial year so far). Following these updates and September's interim results, we adjust estimates for FY 2017E to reflect IPO costs and the H1 loss on investments – neither of which affect our adjusted numbers. We note the pleasing additions to book value and the dividend payments made so far in 2017.

- As expected, income covered dividends paid in the first half of FY 2017E. APQ's book value continues to reflect the balance of income and outgoings. We also note that the reporting of the business – which is run on a US Dollar basis – continues to be affected by the fluctuating strength of sterling. On a US Dollar basis, the Company returned 9.8%, including dividends paid to its shareholders, in the first 10 months of the year.
- The CULS issue raised an additional £20.09 million of funds for investment. Placing proceeds were to be used for investment in line with the Company's existing business strategy. The proceeds were fully invested by the end of September 2017.
- At the end of Q3, APQ's exposure was in credit and government bonds (60.7% of book value), equities (60.4%), Emerging Markets (EM) local currency bond exposure (16.2%) and cash (13.4%). NB: percentages reflect investment of CULS proceeds.
- APQ runs three portfolios: Liquid Emerging Markets, Strategic and Direct. The majority of funds are currently invested in the Liquid portfolio with around 6% in the Strategic portfolio and none in the Direct portfolio where APQ continues to evaluate opportunities.
- The Company continues to benefit from the input of its International Advisory Council which was strengthened further during 2017.

**N.B. APQ Global has a short trading history and our estimates are based on the Company generating sufficient income to cover the management target of paying a dividend of 6% of book value, 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	7.4	7.7
Adjusted EBITDA	-0.4	5.0	6.3	6.6
Adjusted PBT	-0.4	5.0	5.7	6.0
Adjusted EPS (p)	-0.5	6.4	7.3	7.7
EV/Adj. EBITDA	n.a.	19.3x	15.3x	14.7x
P/E	n.a.	16.0x	13.8x	13.2x
Dividend yield	0.0%	5.9%	7.2%	7.5%

Source: Company Information and Progressive Equity Research estimates

## Interim results, Q3 performance and October Book Value

### Interims

Book Value at 30 June 2017 was GBP76.4m, a small decrease from GBP77.4m since the start of the period. Book Value is the net assets and liabilities of the Company including its subsidiary at fair value through profit or loss. Book Value per share in the period declined from 99.15 pence to 97.82 pence. Earnings per share for the period totalled 0.672p.

The interim operating expenses (excluding IPO-related expenses which we expect to be treated as an exceptional item) totalled £0.5 million.

Dividends totalling 2p per share were declared and paid during the period (0.5p relating to Q4 2016 and 1.5p relating to Q1 2017). For Q2 2017, a dividend of 1.5p per share was subsequently declared and paid with a Q3 dividend of 1.5p declared in October and paid on 27 November 2017. APQ is targeting a 6% per annum dividend (paid quarterly) which is based on the IPO price of 100p for 2017 and, beyond that, the opening Book Value of the Company at the beginning of every year. For FY 2017E so far, it has paid 4.5p (4.5% yield on the IPO price) with the Q4 dividend yet to be declared.

The interim announcement noted that the Board was 'excited by some new strategic opportunities' that it intended to pursue during the second half of the year.

### Q3 2017

APQ ended the third quarter with a book value of 96.94p after a return of 0.6% over the period and the payment of the Q2 dividend. It has also declared a further 1.5p dividend for Q3 2017 making a total of 4.5p declared for the current financial year so far. At the end of Q3, APQ's exposure was in credit and government bonds (60.7% of book value), equities (60.4%), Emerging Markets (EM) local currency bond exposure (16.2%) and cash (13.4%). NB: percentages totalling to greater than 100% reflect investment of CULS proceeds.

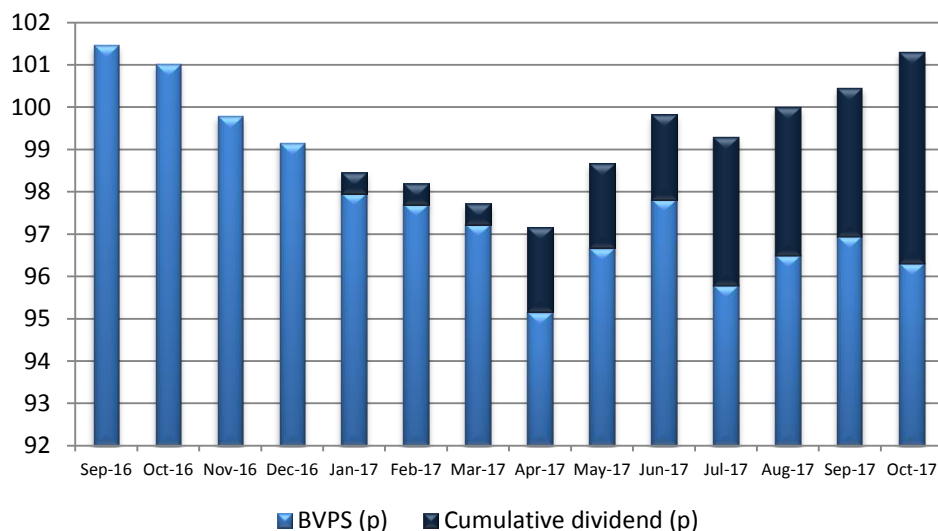
APQ noted that it has continued to favour liquid exposure because of a lack of value and income potential in illiquid opportunities across EM. It also said that the Advisory Board had identified some 'very compelling opportunities in specific markets' and reiterate that the Company is not bearish across emerging markets while 'taking a very considered view' on selecting investment opportunities that will achieve stable income.

At the current share price, the Company is trading on a Price/BVPS of 1.08x. The chart below shows the BVPS which is net of total dividend payments of 5.0p to date (of which 4.5p is applicable to APQ's current financial year).

### October book value

The Book Value per share at the end of October 2017 was 96.3p which includes the shares going ex the 1.5p dividend for Q3. The chart on the following page shows the progression of book value and the cumulative impact on dividends which have been paid or from which the shares have recently gone ex dividend.

### Book Value per share and cumulative dividends (p)



Source: APQ Global

### CULS issue

In August 2017, APQ issued £20.09 million of CULS to raise additional funds for investment. Placing proceeds were to be used for investment in line with the Company's existing business strategy. Given the portfolio breakdown supplied in the Q3 update, we assume that the proceeds were fully invested by the end of September 2017. The Company sees 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.

## Estimates

We take this opportunity to reflect the £0.3 million of net losses on investments in the first half and we estimate that there were around £0.4 million to £0.5 million of exceptional (IPO-related) costs during that period. Both those items affect our estimates of reported numbers – where we reflect nominal gains on investments of 1% per quarter in our estimates until actual numbers are reported - but neither the loss on investments nor the IPO expense affect our adjusted numbers.

We note that, as expected, income covered dividends paid in the first half. APQ's book value continues to reflect the balance of income and outgoings. We also note that the reporting of the business – which is run on a US Dollar basis – continues to be affected by the fluctuating strength of sterling, as expected.

The effects of our two changes on estimates for reported metrics for FY 2017E are shown in the table below.

### Estimate changes

£m unless stated	FY17E			FY18E			FY19E		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Revenue	5.9	5.9	0%	7.4	7.4	0%	7.7	7.7	0%
Adj EBITDA	5.0	5.0	0%	6.3	6.3	0%	6.6	6.6	0%
Reported PBT	7.9	5.7	-28%	9.6	9.6	0%	10.0	10.0	0%
Fully adj PBT	5.0	5.0	0%	5.7	5.7	0%	6.0	6.0	0%
Reported EPS (p)	10.2	7.3	-28%	12.3	12.3	0%	12.9	12.8	0%
Fully adj EPS (p)	6.4	6.4	0%	7.4	7.3	0%	7.7	7.7	0%

Source: *Progressive Equity Research estimates*

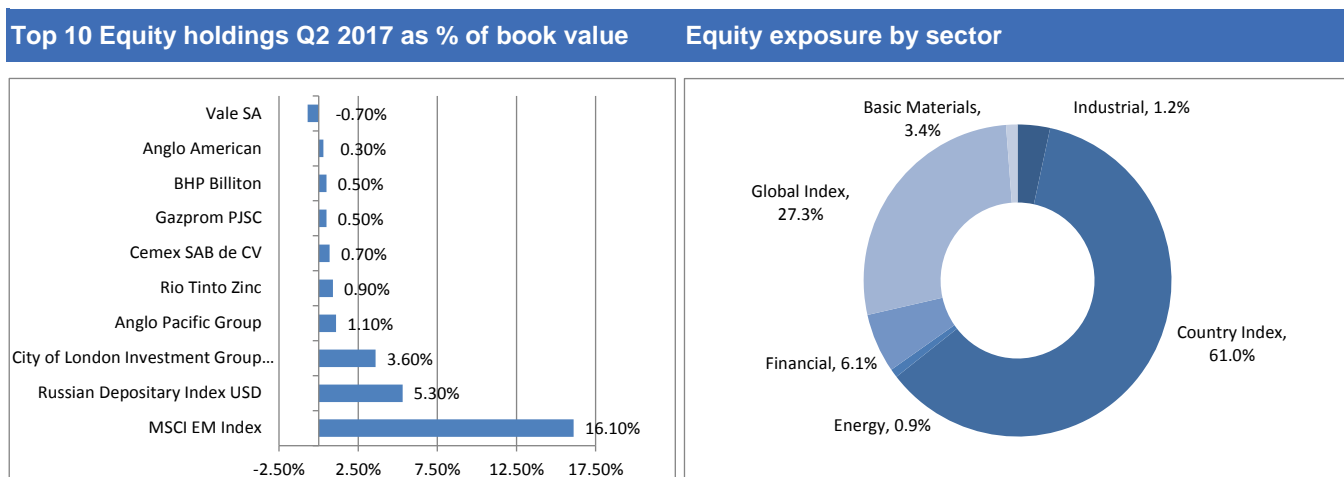
### A word of caution on our estimates

As APQ Global has a short trading history, our estimates in this document are necessarily based on an assumption of the Company generating sufficient income in order to cover the management target of paying a dividend of 6% of book value (or IPO issue price of 100p for FY2017E), operating expenses and the CULS coupon. Consequently, our revenue estimates beyond FY 2017E reflect income from the portfolio representing 7%-8% per annum on average based on quarterly estimates of the returns on each broad asset class. To an extent, this may appear somewhat circular but, noting its published stress test variables, we think that APQ's relatively conservative approach is well set to produce steady income streams. Nonetheless, investors should note that actual results will vary as the composition of the portfolios evolves.

## Portfolios

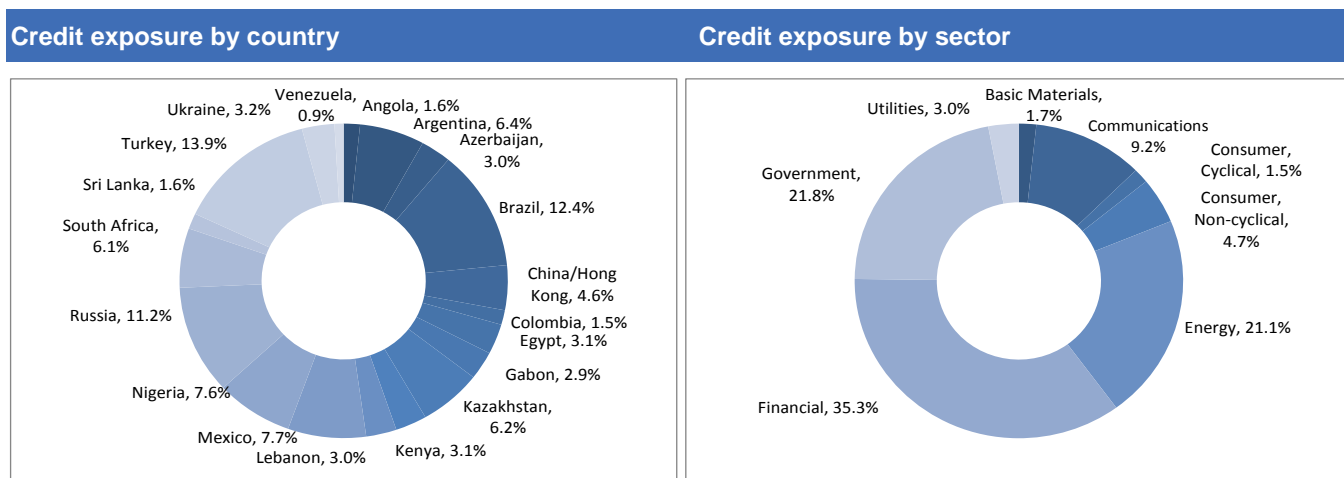
At the end of Q3, APQ's exposure was in credit and government bonds (60.7% of book value), equities (60.4%), Emerging Markets (EM) local currency bond exposure (16.2%) and cash (13.4%). NB: percentages reflect investment of CULS proceeds.

The chart below left shows the Company's top 10 equity holdings as at the end of Q3 2017. The largest EM equity positions remain concentrated in Russia and the Q3 update notes that the motive is still 'a bullish view on commodities'. Aside from country and index exposure, and although it includes two of the Company's strategic investments in Anglo Pacific Group and City of London Investment Group, sector-wise, the bulk of the Company's exposure is in energy, industrials and financials, across Russia and India (see chart below right).



Source: APQ Global

Credit exposure (28.3% of book value as at 30 September 2017) is shown on the chart below, with the countries representing the largest proportions of exposure being Turkey (13.9%), Brazil (12.4%), Russia (11.2%), Mexico (7.7%), and Nigeria (7.6%) and. In terms of sector exposure, the credit exposure is concentrated in government entities, banks and corporations in the energy sector.



Source: Progressive Equity Research

## Strategic Portfolio

As at 30 September 2017, as well as APQ's investment in City of London Investment Group and Anglo Pacific (detailed in the overall statistics), the Company also held 3.1% and 4.2% of Book Value respectively in two publicly listed emerging markets debt funds: EMD US (Western Asset Emerging Markets Debt Fund Inc.) and EDD US (Morgan Stanley Emerging Markets Domestic Debt Fund). APQ's recent announcements note that both of these funds currently trade at a discount and have high dividend yields of approximately 8.0%.

## Current opportunities

In its first half round-up, APQ emphasised that it was not bearish across emerging markets and that it believed in the long-term structural arguments for emerging markets growth. Nonetheless, its investment decisions reflect consideration of the risks in the relevant markets when selecting the right opportunities to deliver its objectives and achieve stable income.

Alongside APQ's highly experienced management team, the Company has established an International Advisory Council which provides further ideas to develop the strategy and optimise associated investments. It has augmented the Council with further appointments recently.

In its Q4 2017 outlook, management provides some very useful insights into a number of features which are likely to be of influence on investment decisions going forward. That includes regulation (particularly deregulation in the healthcare sector), innovation, technology and Alternative Intelligence (AI).

It also comments on some further global opportunities and we highlight two of those below, noting key opportunities in the countries overall and the sectors in which APQ sees particular investment potential.

Clearly, the focus of APQ's portfolios will change with investment decisions and we expect to provide updated examples periodically.

### Current opportunities

#### INDIA

##### Opportunities:

Corporate governance standards are improving which is good for international investors as investment and exit opportunities are likely to get better. Meanwhile, political and social issues do not appear to be affecting India's economic growth or finances. There is increased interest from foreign investors in Indian companies as evidenced by Chinese investment.

##### Sectors:

- Basic materials
- Consumer cyclicals
- Energy

##### Economic indicators (Last)

GDP Growth rate: 1.4%  
 Unemployment rate: 3.46%  
 Inflation: 3.28%  
 Interest rate: 6%  
 Balance of Trade: -US\$8,984m  
 Govt. debt to GDP: 69.5%  
 Govt. Bond 10Y: 6.76%

#### SOUTH AFRICA

##### Opportunities:

The presidential race is the key issue in politics in South Africa. Inflation is within the 3-6% band targeted by the South African Reserve Bank reflecting low economic growth and low food price inflation. However, higher energy prices may impact that. Unemployment continues to be a worry. However, there are opportunities in the energy sector.

##### Sectors:

- Energy – particularly renewables
- Media

##### Economic indicators (Last)

GDP Growth rate: 2.5%  
 Unemployment rate: 27.7%  
 Inflation: 5.1%  
 Interest rate: 6.75%  
 Balance of Trade: ZAR5,941m  
 Govt. debt to GDP: 51.7%  
 Govt. Bond 10Y: 8.84%

Source: APQ Global, Progressive Equity Research

## Risks and management response

Aside from the recognised liquidity and investment risks of shares traded on AIM, we highlight some company specific risks together with management responses in the table below.

Risk		
Risk	Risk/impact	Management action/comments
<b>Emerging Markets risk</b>	The economies of individual emerging countries may differ favourably or unfavourably from the economies of more developed or other emerging market countries. Government and political regimes, local laws and regulations, central bank policies, social and economic stability, protection of legal rights and the effectiveness of the legal and financial system differ materially across many emerging market countries.	The Company will endeavour to mitigate these risks through its investment strategy and internal corporate governance. The Company will also put in place policies in respect of fraud, bribery and corruption.
<b>Currency risk</b>	The Group's reporting currency is Sterling. Its activities in emerging markets give the Group exposure to a range of currencies whose fluctuations may affect the Group's earnings.	The Board may engage in currency hedging in seeking to mitigate foreign exchange risk.
<b>Failure to execute growth strategy</b>	The risk that anticipated growth is not achieved through lack of delivery of organic and/or acquisitive means.	The Board has a clear strategy for growth which is driven and executed by the management team and which is reviewed with reference to specific KPIs.
<b>The Company has no operating history</b>	The Company is recently incorporated no meaningful historical operating or financial data.	The Group has experienced employees who have successful track records in the field of operation of the Company.
<b>Concentration risks</b>	There are no limits on the Group's level of activities within any particular country, region or sector and no limits on the level of exposure to individual companies or assets. This may lead to greater volatility of earnings to the Group.	This risk is mitigated by the control and oversight of the Board and of the Risk Committee.
<b>Valuation risk</b>	Certain assets may be difficult to value, or may be attributed a zero value where the Directors, at their absolute discretion, believe that such valuation would be appropriate and in the absence of any reliable market valuation.	The Directors will use prudent and conservative valuation methodologies.
<b>Derivatives risk</b>	The Group may utilise both exchange-traded and OTC derivatives for risk management and hedging purposes. They can be highly volatile and expose investors to a high risk of loss.	This risk is mitigated by the control and oversight of the Board and of the Risk Committee.
<b>Interest rate risk</b>	Any borrowings may expose the Company to interest rate risk due to fluctuations in the prevailing market rates. Interest rate movements may affect the level of income receivable and the interest payable on the Group's variable rate borrowings.	APQ's convertible unsecured loan stock has a fixed coupon of 3.5%.
<b>Key person risk</b>	If the services of key personnel, in particular Bart Turtelboom and other members of senior management, are not retained, the Group's future success would depend on the continued service of the remaining individuals and their ability to recruit, retain and motivate new employees.	The Company works hard to recruit, retain and motivate existing and new talented personnel.
<b>Cyber attack risk</b>	The Company is subject to Cyber Risk in the form of both failure of systems and the risk of malignant action against APQ.	The Company conducts ongoing cyber risk training
<b>Taxation status risk</b>	Any change in the Company's tax position or status or in tax legislation (including tax rates), or in the interpretation of tax legislation by tax authorities or courts could adversely affect the value of assets held by the Group and may have a material adverse effect on the Company's performance.	The Company constantly monitors its taxation position and status for all its operations.
<b>Law, regulation and taxation jurisdiction risk</b>	The jurisdictions in which the Group may operate may impose new legal, regulatory or taxation requirements which could materially affect the after-tax profits of the Group.	Although the Company intends to take reasonable steps to minimise such risks, this may not be possible in all cases.
<b>FATCA (Fair and Accurate Credit Transactions Act)</b>	FATCA is US legislation aimed at reducing tax evasion by US citizens which requires financial institutions outside the US to pass information about their US customers to the US tax authorities. A 30% withholding tax is imposed on the US source income of any financial institution that fails to comply with this requirement. The Company is a financial institution for these purposes.	As FATCA is a particularly complex area, each Shareholder should consult their own tax advisors to understand how the legislation may affect their own circumstances. The Company will seek to satisfy its obligations under the relevant intergovernmental agreement there can be no assurance that the Company or other entities within the Group will be able to satisfy such obligations.

Source: APQ Global, Progressive Equity Research



## Financial summary (Please note cautionary comments on estimates on pages 1 and 4)

PROFIT & LOSS	FY-16A	FY-17E	FY-18E	FY-19E
<b>Revenue</b>	<b>0.0</b>	<b>5.9</b>	<b>7.4</b>	<b>7.7</b>
Adj EBITDA	(0.4)	5.0	6.3	6.6
<b>Adj EBIT</b>	<b>(0.4)</b>	<b>5.0</b>	<b>6.3</b>	<b>6.6</b>
Reported PBT	0.6	5.7	9.6	10.0
<b>Fully adj PBT</b>	<b>(0.4)</b>	<b>5.0</b>	<b>5.7</b>	<b>6.0</b>
NOPAT	(0.4)	5.0	6.3	6.6
Reported EPS (p)	0.7	7.3	12.3	12.8
<b>Fully adj EPS (p)</b>	<b>(0.5)</b>	<b>6.4</b>	<b>7.3</b>	<b>7.7</b>
Dividend per share (p)	0.0	6.0	7.3	7.6
CASH FLOW & BALANCE SHEET	FY-16A	FY-17E	FY-18E	FY-19E
Operating cash flow	(0.3)	4.7	6.4	6.6
Free Cash flow (£m)	(0.3)	4.7	5.8	6.0
FCF per share (p)	(0.4)	6.0	7.4	7.7
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
<b>Net cash flow</b>	<b>0.9</b>	<b>1.2</b>	<b>0.3</b>	<b>0.1</b>
Overdrafts / borrowings	0.0	(19.5)	(19.5)	(19.5)
Cash & equivalents	0.9	2.1	2.4	2.5
<b>Net (Debt)/Cash</b>	<b>0.9</b>	<b>(17.4)</b>	<b>(17.1)</b>	<b>(17.0)</b>
NAV AND RETURNS	FY-16A	FY-17E	FY-18E	FY-19E
Net asset value	77.4	79.6	83.7	87.8
<b>NAV/share (p)</b>	<b>99.2</b>	<b>101.9</b>	<b>107.2</b>	<b>112.5</b>
Net Tangible Asset Value	77.4	79.6	83.7	87.8
<b>NTAV/share (p)</b>	<b>99.2</b>	<b>101.9</b>	<b>107.2</b>	<b>112.5</b>
Average equity	38.7	78.5	81.6	85.8
<b>Post-tax ROE (%)</b>	<b>1.4%</b>	<b>7.3%</b>	<b>11.8%</b>	<b>11.7%</b>
METRICS	FY-16A	FY-17E	FY-18E	FY-19E
Revenue growth	<i>n.a.</i>	<i>n.a.</i>	26.4%	4.1%
Adj EBITDA growth	<i>n.a.</i>	<i>n.a.</i>	26.7%	4.1%
Adj EBIT growth	<i>n.a.</i>	<i>n.a.</i>	26.7%	4.1%
Adj PBT growth	<i>n.a.</i>	<i>n.a.</i>	15.4%	4.6%
Adj EPS growth	<i>n.a.</i>	<i>n.a.</i>	15.4%	4.6%
Dividend growth	<i>n.a.</i>	<i>n.a.</i>	22.3%	4.1%
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>	16.4	13.0	12.5
EV/EBITDA	(234.3)	19.3	15.3	14.7
EV/NOPAT	(234.3)	19.3	15.3	14.7
PER	<i>n.a.</i>	16.0	13.8	13.2
Dividend yield	0.0%	5.9%	7.2%	7.5%
FCF yield	-0.4%	5.9%	7.3%	7.6%

Source: APQ Global, Progressive Equity Research estimates

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