

Maintained

Hold

<b>Price (24/10/13)</b>	<b>€7.25</b>
Previous target price (12m)	€7.00
<b>Target price (12m)</b>	<b>€7.80</b>
<b>Forecast total return</b>	<b>7.6%</b>
Bloomberg	QFG BB

### **Quest for Growth: 3Q13 in-line, dividend capacity increased further**

Yesterday after market close Quest published a 3Q13 trading update in line with our expectations. Given continued positive performance during 3Q13, Quest's dividend capacity has further improved. A gross dividend of 0.42c seems possible, implying a gross yield of 5.7% on yesterday's share price. Our updated NAV stands at €10.4 per share, implying a 30% discount to NAV. We narrow our 12 month target discount from 30% to 25%, taking into account the upside in Quest's portfolio and the renewed dividend paying capacity, and consequently lift our TP to €7.8.

**During 3Q13, Quest has realized a 3% NAV TSR**, accreting to €10.4 per share, versus a 14% TSR for the TECDAX index (price) and 8.9% for the SXXNFP. Quest's 3Q13 share price performance was 14% as the discount narrowed from 37.3% to 31%. For the first 9 months of the year Quest posted a NAV TSR of 8.4% versus 26% for the CCMP index, 10.61% the SXXNFP and 28.39% for the TECDAX index. Share price performance for the first months stands at 22.1% as besides the NAV accretion of 8.4% the discount narrowed from 38.4% to 30.7%.

**The 9M13 8.4% NAV TSR** implies profit for the nine months of €9m (9M11: €11.9m) transforming the €3.6m in carried forward losses into €5.4m in carried forward profits eligible for dividend distribution. If we pencil in a 90% payout on eligible profits we arrive at a gross dividend of 0.42c, implying a gross yield of 5.9% on yesterday's close.

**The 9M13 performance of the quoted portfolio**, came in at a strong 10% and hence remains the engine behind the NAV accretion in FY13. In term of portfolio rotation we saw one exit in the quoted portfolio during the third quarter, Sphere Medical. No new names were added to the portfolio.. Leaders in the portfolio are LPKF (+78%), Melexis (+53%), Kendrion (+44%), Nemetschek (+38%), en Pharmagest (+38%). Laggards during the 9 months were Imtech, Sphere Medical, Umicore and Andritz.

**The unquoted part of the portfolio of QFG** saw a slight negative return during the third quarter, driven by an additional impairment of 753K and partly mitigated by the during 3Q13 divested Syntanxin. For the 9 months the performance is positive. Main investments during the period are Right Brain Interface and NG DATA (through Capricorn ICT Arkiv fund).

**Asset allocation** remained broadly unchanged, hence quoted equity remained the dominant asset class at 60% of total assets. Net cash amounted to €1.1m at September 2013 versus €3.4m at June 2013. Hence, it seems that Quest put some additional funds at work to limit the cash drag.

**In terms of prospects** Quests points towards the recent improvement in macro-economic indicators, pointing towards a more supportive climate to generate earnings growth, which, given the strong re-rating YTD, is likely to become the dominant driver behind near term positive TSRs.

**Risks.** Quest's share price and NAV performance are heavily geared towards general stock market performance. Any re-rating triggered by positive macro-economic or political developments could lift Quest's NAV and trigger a narrowing of the discount. Conversely, any equity market sell-off could adversely affect Quest's NAV and trigger a widening of the discount.

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