

23 July 2010

QUEST FOR GROWTH

Profitable in 1H10 despite € 0.62m loss in 2Q10

EQUITY INVESTMENT INSTRUMENTS
BELGIUM

CURRENT PRICE € 4.30
TARGET PRICE € 5.50

BUY
RATING UNCHANGED



Source: Thomson Financial Datastream

Bloomberg	QFG BB
Reuters	QUFG.BR
www.questforgrowth.com	
Market Cap	€ 50.7m
Shares outst.	11.8m
Volume (daily)	€ 21,221
Free float	90.6%

Next corporate event

Analyst Meeting 10: 23 July 2010

(€ m)	2007	2008	2009
Net result	0.6	-48.4	18.1
Adj. net result	0.6	-48.4	18.1
Basic EPS (€)	0.05	-4.11	1.53
ROE	0.6%	-41.8%	26.8%
Adj. eq. value	9.87	9.87	7.25
Premium/disc.	14.9%	14.9%	35.9%
DPS (€)	0.05	0.00	0.00
Dividend yield	0.6%	0.0%	0.0%

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News:

Quest in the period between 1 April and 30 June 2Q10 booked its first quarterly loss since 1Q09: the negative result amounted to € 0.62m (€ 0.05 per share) and compares with a 1H09 loss of € 5.37m (€ 0.46 per share) and a 2H09 loss of € 12.71m (€ 1.08 per share). Due to a profitable 1Q10, the company was nevertheless able to write its 6-month result in black ink so that 1H10 profit came in at € 1.46m. Corresponding ROE (since YE09) stood at 1.7% (non-annualised), which is down versus an exceptionally strong 26.8% in FY09, but up versus an equally weak -41.8% in FY08. Equity per share at end-1H10 climbed to € 7.37 per share, versus € 7.25 at YE09 (+1.5% year-to-date), while the stock dropped to € 4.25 (-8.6% year-to-date). The discount consequently increased to 42.3% (versus 35.9% at YE09).

The 1H10 profit is explained almost entirely by Quest's decision to sell its stake in CoreOptics, producing a € 2.5m capital gain. Awaiting formal closing, Quest continues to include the stake in its Private Equity portfolio. The gain was counterbalanced by Movetis, which after floating in 4Q09 suffered from a serious drop in its stock price, hence saddled Quest with a € 1.2m unrealised loss. Quest in 1H10 announced that it invested € 1m in Anteryon, which is the world leader in Wafer optics technology and which produces camera modules for mobile phones.

Our View:

Nor the quarterly profit nor the NAV figure came as a surprise as both had already been made public via the company's monthly updates. The general picture in 1H10 is that the listed segment wasn't able to repeat gains realised in the past 15 months and that the quality of the Private Equity portfolio (not including Clear2Pay, CoreOptics and Movetis) remains difficult to assess. While these explain a large part of the discount (> 40%), we find neither of both worrisome. In fact, Quest fared well as the 6-month NAV performance remained positive, a performance that – even when doped by the CoreOptics sale – compares favourably with a 14.5% year-to-date drop of the EuroStoxx50 index.

Conclusion:

Based on yesterday's closing prices, we estimate adjusted equity value per share at € 7.49 with a 42.6% discount. This level is high, going by comparable companies' valuations, the transparency of its listed investment portfolio, the lack of debt on its balance sheet and its ability to defend its equity base with success. Going forward and following divestment of key PE assets, Quest has but a few options to create value via exits (IPO or trade sale) in the near- and medium term. In all, the upside potential from current trading levels amounts to 27%, even when our TP already implies a 26.5% to adjusted equity value.