

29 July 2011

QUEST FOR GROWTH

1H11 ROE of 1.8% in line with benchmark indices

EQUITY INVESTMENT INSTRUMENTS
BELGIUM

CURRENT PRICE € 5.60
TARGET PRICE € 6.70

BUY
RATING UNCHANGED



Source: Thomson Reuters Datastream

Bloomberg QFG.BB
Reuters QUGF.BR

www.questforgrowth.com

Market Cap € 66.0m
Shares outst. 11.8m
Volume (daily) € 74,689
Free float 90.6%

Next corporate event

Analyst Meeting 11: 29 July 2011

(€ m)	2008	2009	2010
Net result	-48.4	18.1	20.6
Adj. net result	-48.4	18.1	20.6
Basic EPS (€)	-4.11	1.53	1.74
ROE	-41.8%	26.8%	24.1%
Adj. eq. value	9.87	7.25	8.99
Premium/disc.	14.9%	35.9%	42.9%
DPS (€)	0.00	0.00	0.00
Dividend yield	0.0%	0.0%	0.0%

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Summary:

1H11 profit came in at € 1.9m (+30% y/y), boosting NAV by 2.6% on a YTD basis (vs. 1.99% for the Euro Stoxx 50 index) and reducing carried-over losses to € 4.1m (€ 5.99m at YE10). We stick to our € 6.7 TP (implied discount: 25%) and Buy rating (upside potential: 19.6%).

News:

The € 1.9m 1H11 income (€ 0.16 p.s) is evenly spread over 1Q11 (€ 0.9m) and 2Q11 (€ 1.0m). Corresponding ROE (since YE10) arrived at 1.8% (non-annualised), which compares to a very strong FY10 (24.1%) and FY09 (26.8%). Equity per share at end-1H11 climbed to € 9.22, versus € 8.99 at YE10 (+2.6% year-to-date), while the stock posted a staunch 9.6% YTD increase to € 5.82. The discount in the period consequently decreased from 40.93% to 36.9%. The positively result is explained entirely by the performance Quest's listed portfolio, as no divestments have been made in the Private Equity portfolio. The latter saw the addition of Ducatt (€ 1m) as well as an additional € 0.6m investment in Prosonix. Other changes to the balance sheet include the cancellation of Quest's treasury shares (# 259,305), reducing the number currently held to zero.

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 conclusion is that the listed segment, despite being invested in small- en midcap companies with a clear focus on niche segments of the market, has successfully fended off stock price pressure towards the end of 2Q11. And though no impairments have been pushed through at the level of the direct Private Equity portfolio, its underlying quality remains difficult to assess. Quest's NAV stability, however, (so far) didn't result in a decrease to normal levels (25% - 30% range) of the stock's discount (1H11 average: 35.94%). On the other hand, an improvement was noted in 1H11, explaining the clear relative outperformance in total shareholders' return – based on stock price - in 1H11 vis-à-vis main benchmarks. For the discount to structurally narrow, we believe Quest must first be able to resume dividend payments, which we believe will be the case no sooner than in FY13 (based on FY12 earnings) as 1H11 carried-over losses still amounted to € 4.1m.

Conclusion:

We currently estimate adjusted equity value per share at € 8.95 with a 37.4% 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 unfortunately has but a few options to create value via exits (IPO or trade sale) in the near- and medium term. We see upside potential from current trading levels of approx. 19%, despite our TP implies a 26.5% discount to adjusted equity value.