

APQ Global

CULS issuance and income target achieved

Following shareholder approval at the December EGM, APQ has issued an additional £10.3m in 3.5% convertible unsecured loan stocks (CULS) at a 3% premium to par value. The CULS provide long-term structural gearing at a fixed cost, the proceeds of which will be deployed in line with the company's business and investment strategy. APQ has also changed its reporting currency from sterling to US dollars so as to more closely match its investments. Separately, it has reported an unaudited 31 December net book value per share of US\$128.1 and declared a fourth quarterly DPS of 1.5p. Total DPS of 6.0p declared in respect of 2017 matches the target set at IPO and takes the annual US\$ NAV total return to 9.9%.

Year end	EPS** (p)	Book value/share*** (US\$)	DPS (p)	P/E (x)	P/Book value**** (x)	Yield (%)
12/16*	0.71	122.5	0.5	N/A	1.16	0.5
12/17	N/A	128.1	6.0	N/A	1.11	5.9

Note: *Period commencing at inception on 11 August 2016 until 31 December 2016. **EPS in sterling until re-stated for change in functional currency to US\$. ***12/17 book value per share is unaudited as at 31 December 2017. ****Calculated at an exchange rate of 1.3950.

CULS provide long-term structural gearing...

APQ first issued CULS in September 2017, raising £20.1m, and these have subsequently traded on the International Securities Market of the LSE at a premium to the issue price and par value. Encouraged by this success, the board decided to increase the size of the issue as a means of increasing gearing, which it believes will enhance total return over the longer term. The CULS may be converted from 31 March 2018 at an initial conversion price of 105.358p, equivalent to a 10% premium to the unaudited book value per share at 31 July 2017. Outstanding CULS are repayable at par in 2024. Old Mutual, a 23.1% holder of the ordinary shares, participated in the issue.

...targeted to enhance long-term returns

The change of reporting currency should give a clearer indication of progress with the underlying investments, that are managed on a US\$ basis. Sterling weakness through much of the past year has obscured this, with the US\$ NAV total return of 9.9% for 2017 translating into 0.5% in sterling terms. The increase in gearing through the current year, assuming a continuation of market trends and no early conversion of CULS, should have a positive impact on the income earned from investments, and supports the expectation that dividends may at least be maintained in the current year.

Valuation: Attractive EM income

Management is cautious about G7 markets but believes that 2018 will continue to be supportive of emerging markets (EM). Within this context, APQ targets long-term sustainable EM income growth which it believes is under-appreciated by investors and mitigates some of the risks of market volatility. Assuming an unchanged FY18 DPS, the yield on the current share price is 5.9%.

CULS issue and trading update

Investment companies

29 January 2018

Price 102p
Market cap £79m

Estimated net debt (£m)* 30.1

*30 June 2017 cash of £0.2m adjusted for £30.3m CULS issuance. Excludes cash held for working capital purposes within unconsolidated APQ Cayman subsidiary.

Shares in issue 78,055m

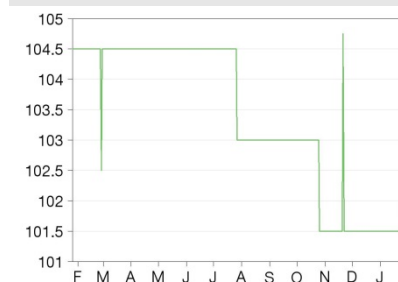
Free float 7.8%

Code APQ

Primary exchange TISE

Secondary exchange AIM

Share price performance



% 1m 3m 12m

Abs 0.0 0.0 (2.9)

Rel (local) (0.9) (2.3) (10.3)

52-week high/low 104.8p 101.5p

Business description

APQ Global is an emerging markets investment company with a focus on Asia, Latin America, emerging Europe, the Middle East, and Africa. It aims to deliver a sustainable and growing dividend as well as capital growth for shareholders by focusing on investment opportunities with the potential to generate significant income and long-term growth.

Next events

January 2018 book value Mid February 2018

Q417 dividend payment 2 March 2018

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Investment summary

In its 2018 outlook document (www.apqglobal.com/media/news/) APQ expresses caution about the outlook for G7 markets with the key US markets vulnerable to mid-term election uncertainty and further increases in interest rates. For emerging markets it expects GDP growth to continue to outpace the G7 by a wide margin, gaining support from firm commodity prices, and less inflationary pressure on interest rates.

During 2017, APQ deployed the bulk of its resources in liquid instruments in EM equities, bonds, and currencies. Management remains eager to expand its activities in more strategic and direct investment opportunities but continues to be disciplined in targeting investments that will meet its long-term return objectives. It is hopeful of closing some opportunities during 2018. The company provides the breakdown of the 9.9% total return generated in the year by asset class, as shown in Exhibit 1.

Exhibit 1: 2017 return contribution by asset class (US\$)

Credit	6.88%
Equity	5.78%
FX	-8.54%
Rates	5.78%
Total	9.90%

Source: APQ Global

At the end of 2017, prior to the second £10.3m CULS issue, the bulk of the company's overall exposure remained in EM credit and government bonds. The overall positioning suggests some increased caution in relation to equities since end-September 2017, EM credit and government bond as well as EM local currency bond exposure both increasing and equity exposure decreasing. The cash exposure, substantially retained for collateral and working capital purposes was also higher.

Exhibit 2: Portfolio breakdown as a percentage of book value

	31 December 2017	30 September 2017
EM Credit and government bonds	66.5%	60.7%
EM local markets	25.1%	16.2%
EM Equities	25.7%	60.4%
Cash	20.0%	13.4%
Total	137.3%	150.7%

Source: APQ Global

The bond and equity exposures remain highly diversified. By geography, the largest equity exposure at end-2017 were in China and South Korea, followed by Russia and South Africa. APQ's bullish view on commodities is reflected in the equity sector positioning. The largest credit positions are in Brazil, Russia and Turkey with sector exposure concentrated on government entities, banks, and corporations in the energy sector.

APQ's unaudited stress test scenario results support management's belief that book value sensitivity to overall market movements remains low (Exhibit 3) although exposure to a change in yields has increased along with the credit exposure.

Exhibit 3: Management stress test results – predicted change in book value

	31 December 2017	30 September 2017
Equity stress test (S&P -10%)	-0.43%	-0.38%
Credit stress test (Credit spreads +10%)	-0.96%	-0.93%
Interest rate stress test (yields +1%)	-2.90%	-1.02%

Source: APQ Global

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