



Equus Total Return Reports Third Quarter NAV

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Beaten Down Fund Offers Substantial Discount And A Hoard Of Cash

Equus Total Return fund recently reported its 3rd quarter net asset value and begs the question,

why aren't more value investors scooping up this highly undervalued portfolio? Is it because of the past two years of seeming dormancy? Is it the history of poorly timed investments? Could it be the as yet unanswered question of "what is going on with the MVC Capital merger? Likely the answer is a combination of all three but that does not alter the fact that this portfolio is trading at a deep discount, or the very possibility that

the funds worst days are behind it.

The Equus Total Return fund is one of dozens if not hundreds of closed end funds begun with the best of intentions, intentions to create wealth and generate cash flow. Like so many funds of its class it fell prey to the oil boom of the post-Financial Crisis, as well as a few miss-steps by management, but the hard times are over, at least for now. Devaluation in energy investments have bottomed and are on the rise while other investments are beginning to bear fruit. There are losses and non-performing assets on the books but in the end, they don't really matter. The fund is trading at such a deep discount to NAV the chaff could be winnowed away and what would be left would still be worth more than what it is trading for today. Based on price action over the past few months it certainly

◀ looks like someone agrees with me.

Third quarter net asset value, NAV, was reported as \$41.5 million. This is up nearly \$2 million from the previous quarter and the 4th quarter of sequential NAV increases. On a per share basis NAV increased by \$0.14, or 4.5%. The increases are due in total to positive performance in three investments of the portfolio, the only three that really matter. Along with those is a healthy cash position that could be used in a number of ways to the benefit of the fund and its shareholders. Cash holdings at last report were more than \$12.6 million, a full 30% of the total portfolio's net asset value, and are nearly 100% unencumbered. On to the investment holdings.

The star of the portfolio is a company called PalletOne, Inc. PalletOne is the nations largest manufacturer of wooden shipping pallets and does business around the world. The company has been benefiting from economic tailwinds as the global economic recovery continues. These benefits have led to a substantial increase in the trailing twelve month EBITDA over the past 6 quarters and more, leading to a likewise increase in the value of Equus holdings. Equus has an 18.7% fully diluted interest in the company, worth \$14.3 million at the start of the quarter and up 7.6% to \$15.4 million by the end. While the trend is by no means guaranteed, based on recent US data alone (labor trends, 3rd quarter GDP revisions, housing starts/sales/construction) it certainly looks like there is no reason to think they will end either. In terms of the portfolio, PalletOne accounts for about 37% of total holdings.

One of the dogs of the portfolio is Equus Energy. Equus Energy was begun with something like \$7 million dollars and is a wholly owned subsidiary of Equus Total



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Return Inc. It's purpose was to invest in oil and natural gas plays across Texas and Oklahoma, including the Permian Basin, and it did so right at the height of the oil craze. Since then the original investment was halved in value but has, along with the oil market, bottomed and begun to see it worth begin to rise

in the eyes of the market, up \$1.25 million, 31.25%, to \$5.25 million over the course of the last quarter. Along with an increase in value the company also reported an increase in activity concerning some of its lease holdings in the Permian. Managers were able to sell an option to buy 20 acres, nothing definite, but a sign that drillers are back in the market for prime territory and a possible source of cash flow and capitalization in the future. Equus Energy accounts for about 12.7% of net asset value.

Holdings of MVC Capital, a BDC operating under the Business Investment Act of 1940, also saw a notable increase in value and represent a substantial portion of the Equus portfolio. These shares were first acquired when Equus and

◀ MVC entered into an agreement to merge, a merger that has been on the back burner for quite some time, and have since been added to as MVC pays out its dividend in shares. The 3% increase in MVC value plus the addition of new shares resulted in a 5.5% increase in the value of Equus holdings, about \$3.8 million or 9.2% of the net asset value.

Together, the cash and valuable portions of the portfolio are about 88.8% of NAV, the rest are underperforming and non-performing investments and unrealized losses that have been lingering on the balance sheet and easily culled. At 88.8% of NAV, \$2.90 per share, there is still a substantial discount for value investors and the possibility of high double digit total returns. The discount on this portion of the portfolio, assuming all

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else has simply been walked away from, is still a whopping 33% and an attractive entry point for a fund trading at only a few dollars per share. A simple increase in value to come more in line with NAV could see share prices rise 10% to 20% and

only bring the discount up to 15%.

Possibilities for the fund are numerous and all positive for share holders. The first is that the merger with MVC Capital will be consummated into a larger, better managed and more established BDC. The second is that it won't, and if not that leads to a number of other avenues through which the fund and its managers can deliver value to shareholders including a liquidation, a sale to another fund, dividends, special distributions and making new investments. This fund is beaten down, it isn't pretty and it's not what you want to build your IRA on but it is an undervalued gem with real value and a hoard of cash that is only waiting to be unlocked. If you are interested in investing in this fund it can be found listed on the NYSE under the ticker symbol EQS.