

The Equus Fund: Best buy at current price



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Under the current environment of low interest rates, investors seeking for stable income have continued to flock towards the companies capable of paying a strong yield. One such company that has steadily performed in

recent months is Equus Total Return, Inc (NYSE: EQS). It is a PE (Private Equity) firm specializing in small capitalization companies and structured as a closed end fund. It has been in operation since 1983 and public since 1991.

The Equus Fund seeks to achieve capital appreciation by making investments in equity and equity-oriented securities issued by privately-owned companies. EQS trades at \$2.06 nearly 30% of discount to its NAV. This is a small

BDC which has stubbed its toe on some equity investments over the years, but now they have really good companies in the portfolio and can reap the benefits in the coming years. EQS has roughly \$20 million or \$1.80 a share net cash on its balance sheet, so investor are getting the rest of the assets at an enormous discount to book value, but because they are largely in the form of equity in small companies it is very hard to determine their value.

The Funds investment objective

is to generate current investment income and long-term capital gains by investing in the debt and equity securities of small capitalization companies. The portfolio managers has indicated that it generally intends to invest its assets in sectors that are driven by significant social and demographic trends, including an aging population, increased leisure time, the globalization of business and widespread concern about the environment and increasingly scarce energy resources. The manager intends to implement a total return-oriented investment strategy, which will include investments in a broad mix of equity and debt securities. Reflecting its change to a total return investment strategy, the Fund expects that its investments in debt and equity securities will generate both current income and capital gains and will enable it to adopt and maintain a consistent dividend policy.

Energy Sector potential

EQS has made significant proportion of its investment in Energy sector. Equus Energy, LLC a wholly-owned subsidiary of the Equus Fund announced that it has invested \$6.6 million to purchase the working interests in 150 producing and non-producing oil and gas wells in first quarter of 2013, including associated development rights of approximately 23,000 acres situated on 15 separate properties in Texas and Oklahoma. The wells are operated by a number

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of experienced operators, including a major multi-national oil and gas conglomerate which has operating responsibility for approximately half of the producing well.

Real Estate Investments

Another important holding for EQS is Orco Germany S.A. (ORCO) is a commercial and multi-family residential real estate holding company and developer based in Berlin, and is a controlled subsidiary of Orco Property Group S.A., a commercial and multi-family residential real estate holding company based in Paris. The Fund initially invested in the bonds of ORCO, a controlled subsidiary of OPG (Orco Property Group). In 2012, these bonds were converted into 1,573,666 ordinary shares of OPG and EUR 1.2 million (\$1.5 million) of OPG notes. Considering the Germany is the best performing country in the Euro zone, ORCO is expected to post good results in the coming quarter and this is good news for EQS.

Other Investment Holdings

Another area in which Equus has focused is manufacturing sector. Palletone Inc. has been on the Equus radar for a long time. Palletone is the

largest new pallet manufacturer in United States. The Company offers unparalleled expertise with over 40 years experience in the pallet industry. PalletOne is privately owned company and its revenue is in excess of \$200 Million. With improving outlook of US Economy Palletone expected to perform better in coming quarters which will help Equus in the long run.

Conclusion:

Taken as a whole, the company appears to be well-positioned for continued growth. The compelling valuation metrics, the very strong earnings growth prospects and the fact that the stock is in an uptrend are all factors that make EQS quite attractive. Most importantly, EQS has been increasing its capability to return value as indicated by the growing dividend rate. Compared to where it was 12 months ago, the stock is up, but it has so far lagged the appreciation in the S&P 500. Turning our attention to the future direction of the stock, it goes without saying that even the best fund can fall in an overall down market. However, in any other environment, this stock still has good upside potential considering the fact that it has very good companies in the bucket. For those looking for stable investment income Equus total Return Fund may offer an investment worthy of consideration. ■