China | TMT

NQ Mobile Inc. (NQ US)

March 25, 2014

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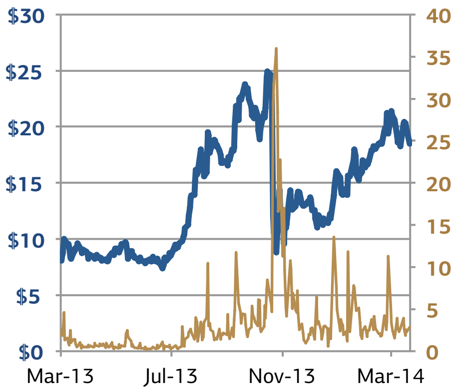
NQ Mobile Inc. (NQ US) one-year share price in USD (blue) and volume (gold, in mln shares)



Source: Bloomberg, March 25, 2014

NQ Mobile Inc. (NQ US)

Price	USD 18.51
Rating	**SELL**
Price target	**USD 4.98/ADS**
Difference	**73%**
Market Cap	USD 1.14 bln
Simple Moving Avg.	2.65 mln
P/E	146.32x

Source: Bloomberg, March 25, 2014

Time to quit

+ Unable to conduct due diligence on NQ’s cash

In a October 2013 press release, NQ invited independent parties to conduct due diligence on the company’s cash balances. Despite numerous calls, and in-person visits in Dallas, Hong Kong, and Beijing, we’ve been unable to receive authorization. In most cases, our enquiries were met with silence, and no one has given us a process to follow to attain authorization.

+ Earnings announcement late

IR has been dubiously silent on whether 2013 Q4 and full-year earnings will come any time soon. In the past, NQ has announced in mid-February when it will release earnings, with the release in early March. NQ still has not indicated when we can expect earnings, and IR has been unusually silent.

+ Reiterate SELL; PT USD 4.98/ADS

We reiterate our target price of USD 4.98 per ADS based on our DCF valuation, with a WACC of 11.5% and a PER of USD 2.60, and a P/E of 30x.

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Nixed query

NQ seems to have extended an offer of transparency only to friends of the company.

In an October 30, 2013 press release, NQ invited outside parties to conduct their own due diligence into company accounts:

> *Committed to full financial integrity and clear, open transparency, the Company has authorized Standard Chartered Bank to allow an independent verification of the account validity, as well as provide related details, to any interested investor who requests the information in good faith.*[1]

We've made numerous attempts in person and over the phone to conduct our own due diligence on the NQ bank account at Standard Chartered, or simply to speak with IR. We've called the Dallas and Beijing offices on multiple occasions, and have yet to make contact with a person at the end of the line who will help address the inquiry of how to gain access (in most cases, despite calling during business hours, we have reached only an answering service, and have never been called back). We understand that analysts with "buy" recommendations on the stock were given access to account balances within weeks of the announcement, but no explanation has been provided for stonewalling us, nor have we been informed of an approval process for accessing account information by a "good faith" investor.

Stalled in Hong Kong

We made a visit to Standard Chartered in Hong Kong. There, we managed to determine from the bank who NQ's account relations representative was. This representative was supposed to meet us in the lobby of the bank's wholesale department, but she was nowhere to be found. Instead, she called down to the lobby desk phone. She told us that company policy required that NQ IR give us formal authorization before she could show us any information. After telling her that we were unable to make contact with anyone at NQ, we asked if she could give us direct contact details for someone at NQ who could give her authorization. She stated that she was not authorized to do this. We asked her to call NQ to help us get authorization. She stated that this was against company policy. She did not agree to provide her email and phone number.

[1] http://ir.nq.com/phoenix.zhtml?c=243152&p=irol-newsArticle&ID=1870168&highlight=

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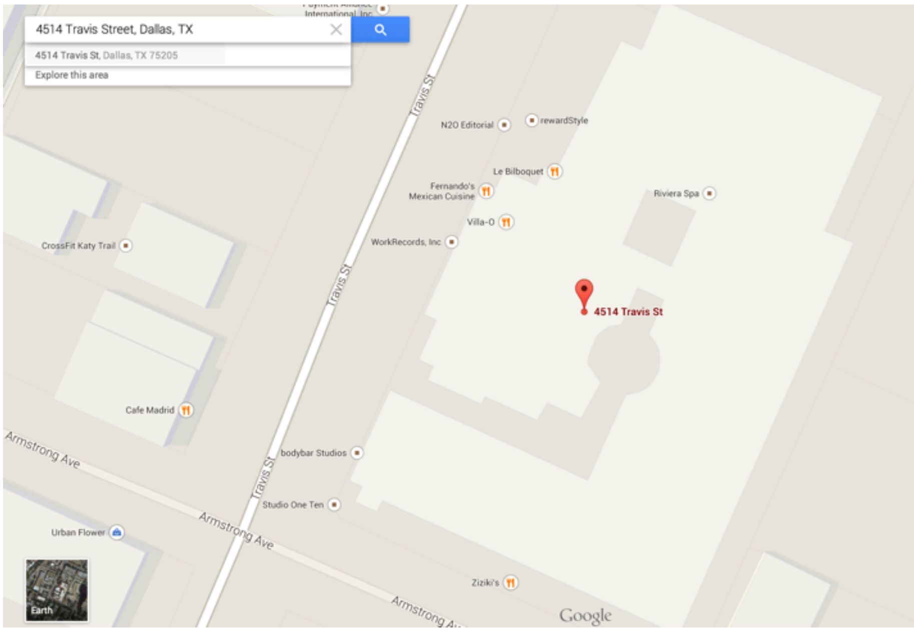
Stymied in Dallas

After several more failed attempts to contact NQ IR by phone, we made a visit to NQ's Dallas office. Instead of being located in an office park, or near other tech companies, it is located in a shopping and restaurant center in a residential neighborhood of Dallas, next to a gym. Doors are opened by swipe card, and there is no bell for visitors to ring. It took several minutes for an NQ employee to become visible and notice us through the glass doors.

We visited NQ's Dallas headquarters because the company doesn't answer the phone.

NQ Mobile's office in Dallas is located in this complex, which primarily houses restaurants and is in a residential neighborhood. Photo by J Capital, March 2014.



Building where NQ's office is located as viewed on Google Maps. Screenshot. March 24, 2014.

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NQ's main entrance. We made ourselves seen through a side door. Photo by J Capital, March 2014.

We made our enquiry with a woman who answered the door but were not allowed into the offices. We noticed only four employees throughout the time of our visit, and could find only 17 online for the Dallas area, of which only four were programmers or technical employees (the remainder are sales or NQ executives). We were told that the person who was responsible for IR was not in the office that day, and we were given his direct line. We explained that we had tried calling the offices multiple times, and the woman replied, "Usually people just call his cell." We note that this number is not generally available, and we have been unable to get connected by going through official channels thus far.

IR instructed us to call him directly by phone, but the call was rejected.

We reached IR over the phone, and explained that we wanted to conduct due diligence on the Standard Chartered bank account, as invited by the press release. IR did not respond to our requests for information on how to get authorization. IR instead told us that NQ is undergoing independent investigations with auditors, that the cash is real, and we should wait until there is a conclusion. When we pressed on getting authorization, IR told us "I understand. You can tell Anne [Stevenson-Yang, J Capital's director of research] to give me a call. I think it's more appropriate and I can explain to her." IR concluded by saying he'd be happy to show us around the office some time.

Subsequently, our research director emailed and telephoned IR directly but received no response.

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Stopped in Beijing

A Standard Chartered employee in Beijing told us the offer had expired, though the press release offer was open ended.

We made another inquiry directly with Standard Chartered in Beijing. After waiting for the better part of an hour, we were told that we could not check the accounts as we were too far removed from the date of the press release, but the account manager told us to get permission from NQ directly if we wished. We did not see any expiration date on the offer to conduct due diligence as stated in the press release.

Earnings? Not quite

NQ has yet to make an announcement as to when they will release 2013 Q4 and full-year earnings. Earnings reports for Chinese companies listed in the U.S. have been, as a group, later compared with last year. This has been widely attributed to the Chinese New Year, which began January 31, 2014, compared to February 10, 2013.[2] The logic goes, since the holiday began a week and a half earlier, companies were hard pressed to complete their reports on time, and thus were delayed until after the holiday to report.

The regulatory deadline for a 20-F is April 30. But this delay is unusual.

This may be the case, but Chinese New year doesn't explain why earnings from companies like RENN and NQ, which reported on March 11 and March 6 respectively in 2013, have been delayed in 2014. RENN released on March 18, but NQ still has not indicated when it will release earnings. The placement of Chinese New Year has seemed irrelevant to NQ's earnings in the past. On February 20, 2013, NQ announced when it would release 2012 earnings—less than a week after the conclusion of the official holiday in China. For 2011 and 2012 full-year earnings, the company made announcements on February 16 and February 20, and released earnings on March 5 and March 6 respectively.

Unlike IR's usual practice of issuing a press release, NQ posted on its official blog:

> *We have not yet announced the exact date for our Q4 and year-end 2013 earnings report. We recognize that this has led to many rumors and concerns, which we want to address again today. As we have previously said, we will be announcing the date of our earnings report soon.*[3]

[2] http://247wallst.com/technology-3/2014/02/06/is-something-wrong-at-baidu-for-such-late-earnings/
http://seekingalpha.com/article/2095063-nq-mobiles-upcoming-audit-and-earnings-report-what-investors-need-to-know

[3] http://blog.nq.com/nq-mobile-ir-update-for-march-12-2014/

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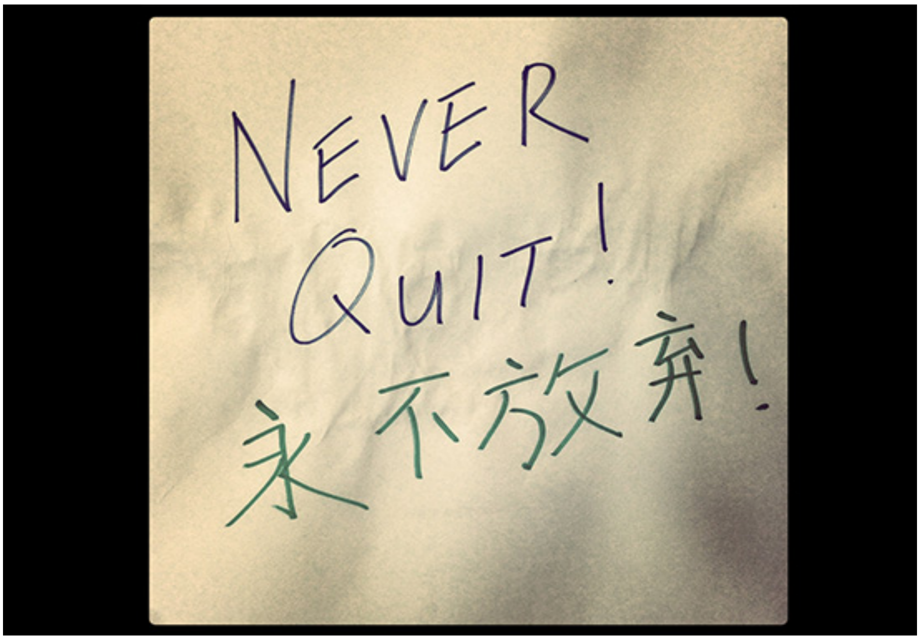
NQ IR now buries less-than-positive news on its blog, rather than issuing press releases.

This is only the second IR update on the official NQ blog: the first one coming only a week earlier in response to trading volatility.[4] This is a sudden change in method of communication for IR, which previously used press releases exclusively. The blog has no IR category, and the titles of the posts ("NQ Mobile IR Update for March 3, 2014" and "NQ Mobile IR Update for March 12, 2014') are constructed to look routine, even though they are anomalous for the company, and bland, even though they are dealing directly with investor concerns. This looks like an attempt to bury bad news out of the normal channels of communication that investors are used to.



Picture accompanying NQ IR's first ever blog post on the NQ blog in response to trading volatility.[3]

Not Q-uredible

There's a common misunderstanding[5] that NQ is late to file its 10-K, for which there is a filing deadline 75 days after the end of the fiscal year (this year, March 18, 2014). However, NQ files a 20-F, for which the deadline is April 30, 2014. While not statutorily late, NQ is now more than a month overdue in terms of expectations in telling investors when they can expect the earnings report, and three weeks past its normal date in releasing earnings. For all the company protestations that nothing is out of the ordinary, we believe NQ is bluffing.

[4] http://blog.nq.com/nq-mobile-ir-update-for-march-3-2014/

[5] http://stocktwits.com/symbol/NQ

http://seekingalpha.com/article/2095063-nq-mobiles-upcoming-audit-and-earnings-report-what-investors-need-to-know [see comments]

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