



June 19, 2014

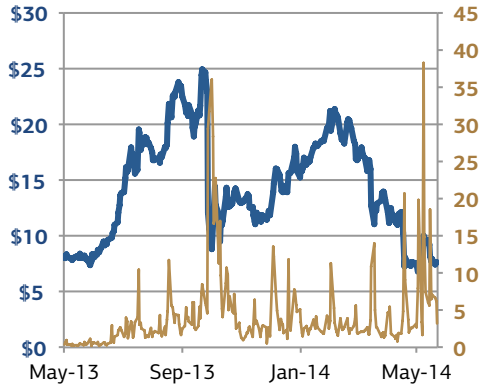
China | TMT

# NQ Mobile Inc. (NQ US)

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



Source: Bloomberg, June 19, 2014

## NQ Mobile Inc. (NQ US)

Price	USD 7.62
Rating	<b>SELL</b>
Price target	<b>USD 4.98</b>
Difference since initiation	<b>50%</b>
Market Cap	USD 471 mln
Simple Moving Avg.	10.2 mln
P/E	—

Source: Bloomberg, June 19, 2014

## Delist or go-private

### + A cash raise for a “cash-rich” company

NQ plans to raise up to USD 55 mln in sales of minority stakes in its two major subsidiaries, FL Mobile and NationSky. For a company with a reported USD 283 mln in cash, the need for a cash raise seems suspect. This is a strong indication that NQ does not have the cash it claims.

### + 20-F delay puts NQ in worse company than ever

Over 80% of the companies that filed for an extension on April 30 have since filed their annual report. NQ is now in the company of two delisting companies, one company undergoing acquisition, and a company currently under regulatory investigation by the SEC for delinquency in filing.

### + Closing coverage with SELL rating

NQ’s share price has fallen 50% since we initiated in July 2013. There is potential for continued price falls with the delayed audit results, but as NQ’s market cap has fallen below USD 500 mln, we are closing coverage.

## Cash for its own sake

In the last few weeks, NQ has announced deals to sell small minority stakes in its two major subsidiaries, FL Mobile<sup>1</sup> and NationSky<sup>2</sup>, which raise a total of up to USD 55 mln for the company and suggest a combined pre-money valuation of USD 900 mln for both subsidiaries, equal to 191% of NQ's market cap.

The deal structures were near identical:

**Two minority stake sales give valuations equal to 196% of NQ's market cap.**

- Small portions of each subsidiary sold (up to a total of 5.88% of FL Mobile, 5.7% of NationSky).
- Cash purchase price each equal to majority of valuation at time of acquisition by NQ (50% of FL Mobile's valuation, 130% of NationSky).
- In both cases, cash acquired through these deals will be greater than the cash consideration NQ originally paid to acquire 100% of the companies over the course of 2012 and 2013 (acquisitions were made primarily via shares).
- Cash in both cases will ostensibly be used for development of the subsidiaries, not of the remainder of the company.
- Investors in both have a redemption right if IPOs are not successfully launched in 12 months (FL Mobile) and 24 months (NationSky). This buyback clause makes the investments look like short-term loans.

**NQ doesn't have the cash, and is setting itself up for a go-private deal.**

In NQ's unaudited 2013 Q4 financials, the company disclosed USD 283 mln in cash, cash equivalents, and term deposits, begging the question: why does NQ need a cash raise equivalent to less than 20% of existing cash holdings in order to develop the brands and operations of their subsidiaries?

The answer that pops out at us is that NQ does not have the cash it claims. They already have available cash that is not being utilized, and were they to divert that cash, they could maintain full equity in their supposedly highly profitable and fast-growing subsidiaries. To us, this signifies that NQ has managed to fool investors as to its cash balances, and that it is in fact cash-poor.

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<sup>1</sup> <http://ir.nq.com/phoenix.zhtml?c=243152&p=irol-newsArticle&ID=1935860&highlight=>

<sup>2</sup> <http://ir.nq.com/phoenix.zhtml?c=243152&p=irol-newsArticle&ID=1938648&highlight=>

### The still illusive 20-F

In our May 1, 2014 update, we reported on the 30 non-US domiciled companies that failed to meet the April 30 filing deadline for their 20-Fs. We looked at how many of these companies had filed by June 18 and found that 15, or 50%, of companies filed 20-Fs by May 15, and only five companies had still failed to file as of June 18 (See Appendix A for a full description).

**Table 1. Companies with 20-Fs outstanding**

Ticker	Company	Date of 20-F filing	Affirm submission by May 15?	Filed for extension FY2012?	Market cap as of May 1, 2014 (mln)	Country of domicile
AMBO	Ambow Education Holding Ltd.	-	N	Y	\$0	China
DGBMF	Dragon Bright Mintai Botanical Technology Cayman Ltd.	-	Y	Y	\$0	Hong Kong
NQ	NQ Mobile Inc.	-	Y	N	\$764	China
VRAYF	Viryanet Ltd	-	Y	N	\$13	Israel
WH	WSP Holdings Ltd	-	N	Y	\$55	China

Source: SEC filings

Of these still-delinquent companies:

- Ambow is delisting<sup>3</sup> and Dragon Bright is no longer trading on the NYSE;
- Viryanet has been acquired by a U.S. company after seeing a 95% decline from its peak market cap. It will be consolidated into the acquiring entity;<sup>4</sup>
- WSP Holdings notified investors on June 4 that it has “received a notice of failure to satisfy continued listing standards (the “Letter”) from NYSE Regulation,”<sup>5</sup> and
- NQ has provided no reason for the continued delay in filing its 20-F.

Based on these outcomes, we believe that NQ is unlikely to remain listed, and we are closing coverage.

<sup>3</sup> <http://ir.theice.com/investors-and-media/press/press-releases/press-release-details/2014/NYSE-to-Immediately-Suspend-Trading-in-American-Depositary-Shares-of-Ambow-Education-Holding-Ltd-and-Commence-Delisting-Proceedings/default.aspx>

<sup>4</sup> <http://www.globes.co.il/en/article-verisae-acquires-viryanet-for-19m-1000945985>

<sup>5</sup> <http://ir.wsphl.com/phoenix.zhtml?c=216706&p=irol-newsArticle&ID=1937288&highlight=>

## Appendix A

### NT-20F filers with FY ending 12/31/2013: dates of 20-F filing

Ticker	Company	Date of 20-F filing	Affirm submission by May 15?	Filed for extension FY2012?	Market cap as of May 1, 2014 (mln)	Country
AMBO	Ambow Education Holding Ltd.	-		Y	\$0	China
AKO'A	Andina Bottling Co Inc	5/15/14	Y	N	\$3,422	Chile
AXLWF	Arabella Exploration, Inc.	5/15/14		Y	\$0	Hong Kong
CALVF	Caledonia Mining Corp	5/15/14	Y	N	\$39	Canada
CRCUF	Canarc Resource Corp	5/20/14	Y	N	\$12	Canada
CHRM	Charm Communications Inc.	5/15/14		N	\$159	China
COGLF	Chelsea Oil & Gas Ltd.	5/15/14		Y	\$9	Canada
JRJC	China Finance Online Co. Ltd	5/6/14		N	\$83	Hong Kong
BCA	Corpbanka/FI	5/15/14	Y	Y	\$3,992	Chile
DGBMF	Dragon Bright Mintai Botanical Technology Cayman Ltd.	-	Y	Y	\$0	Hong Kong
FNTSF	Flint Int'l Services, Inc.	5/15/14		Y	\$0	Canada
SIM	Group Simec Sa De CV	5/15/14	Y	Y	\$1,861	Mexico
HHHEF	High 5 Ventures Inc.	5/9/14	Y	N	\$0	Canada
ICTSF	ICTS International N V	5/14/14		Y	\$8	The Netherlands
JAGGF	Jaguar Mining Inc	5/15/14	Y	N	\$5	Canada
BMMCF	Kbridge Energy Corp.	5/15/14	Y	Y	\$15	Canada
KUTV	Ku6 Media Co., Ltd	5/15/14		N	\$86	China
LAS	Lentuo International Inc.	5/15/14	Y	N	\$91	China
MTL	Mechel OAO	5/15/14		N	\$841	Russia
	Mexican Petroleum	5/15/14		N	Unlisted	Mexico
NBG	National Bank of Greece SA	5/15/14		Y	\$6,711	Greece
NEWL	Newlead Holdings Ltd.	5/9/14	Y	Y	\$5	Greece
NQ	NQ Mobile Inc.	-	Y	N	\$764	China
RCFEF	Rainchief Energy Inc.	5/2/14		Y	\$5	Canada
TSEM	Tower Semiconductor Ltd	5/14/14	Y	N	\$381	Israel
YNGFF	Veris Gold Corp.	5/7/14	Y	N	\$46	Canada
VIEW	Viewtran Group, Inc.	5/16/14		N	\$63	China
VRYAF	Viryanet Ltd	-	Y	N	\$13	Israel
BWOWF	Wowjoint Holdings Ltd	6/18/14		Y	\$1	China
WH	WSP Holdings Ltd	-		Y	\$55	China

Source: SEC filings

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