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Business

Tempus

Buy, sell or hold: today's best share tips

Action speaks louder than words

3I

Portfolio value	Interim dividend
£7.2bn	15p

What a brilliant day it might have been for 3i to announce half-year results (Patrick Hosking writes). The listed private equity group is, in some ways, the ultimate hedge against a chaotic Brexit. Its assets are overwhelmingly on the Continent. Britain has been dwindling in importance for years and now accounts for less than 10 per cent of private equity holdings. Alas, for 3i, its results were overshadowed by problems in two of its larger investments.

Action, a Dutch-based discount retailer, has been a phenomenal investment for the group, generating well over £2 billion of value since it was acquired in 2011. But there has been a wobble as it continues its galloping expansion into France, Germany, Poland and Austria. 3i revealed that it had postponed 20 new store openings in France from this quarter because of what it called "supply chain and product availability challenges".

It seems no huge calamity. The problem is centred on a single, highly unionised distribution centre at Moissy, near Paris. Slower unloading times led to stock shortages and lower basket sizes in the shops. Action is putting in additional staff, boosting training and building extra capacity in other distribution centres. Simon Borrows, chief executive, is confident that this doesn't herald deeper problems in the growth strategy. The Action investment generated £271 million in extra value for 3i in the first half and is now valued at £2.38 billion, or 33 per cent of the entire private equity portfolio.

Schlemmer, a German maker of gizmos to keep wiring safely installed in cars, has also hit problems. 3i has had to slash its valuation of its stake in the business by £53 million to £107 million because of pressures on profits and cashflow. The chief executive and finance chief have been jettisoned and a new team installed to improve weak controls and processes.

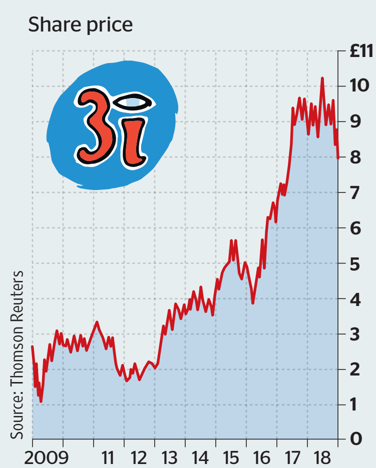
In spite of these setbacks, 3i produced a very respectable first half, generating a total return of £728 million, or 10 per cent on opening shareholders' funds. Eighty-eight per cent by value of its top 20 assets produced profits growth. This number was slightly flattered, however, because Schlemmer fell out of the top 20. Even so, 3i's buy-and-build policy of snapping up companies and then expanding them though organic growth and bolt-on acquisition continues to pay off.

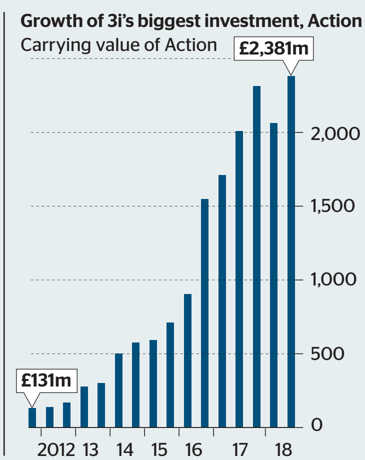
While rival private equity funds scramble to find homes for cash already raised from investors and can end up overpaying for assets, 3i, as a closed-end business, can afford to be more discriminating. It still managed to identify a couple of promising new investments in the half. It sank £136 million into Royal Sanders, a lotions and potions manufacturer. It also paid £111 million for a stake in ICE, which devises travel-based reward programmes for brands such as American Express and Hilton Hotels.

The infrastructure division is ticking along nicely, too. 3i manages the listed 3i Infrastructure trust and also owns a 33 per cent stake in it. Its shares rose 14 per cent in the period.

3i has been a class act in recent years. In any portfolio there will always be the occasional turkey, but over the long term, its ratio of winners to losers is reassuringly strong. The shares, after yesterday's 8 per cent dive to 789¾p, look relatively good value, trading at a premium to net assets of only 2 per cent. In the past that premium has been as high as 25 per cent, reflecting confidence that the company is very conservative in its valuations. And if sterling really is heading seriously south, 3i, whose investee companies make their money in euros, is well insulated.

A wobble but not a calamity





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