THE TIMES

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

All eyes on a stellar investment trust

3I GROUP

Market cap	Discount to net asset value
£11.8bn	14%

Private equity investment companies look even cheaper than normal. For 3i Group, that has translated into a rare discount of its shares compared with the FTSE 100 stalwart's net asset value.

The share price declines across the sector have happened for a good reason: investors expect falls in the values of the private companies that these investment trusts hold. Companies such as 3i revalue their investments every three months, meaning that changes in the worth of their private market holdings can take longer to materialise than those of publicly quoted companies. But 3i's impressive record of returns means the decline in the share price more than accounts for a hiatus or a potential reversal in the sharp rise in the value of the investment specialist's portfolio.

3i's shares are priced 14 per cent lower than the group's NAV at the end of June, deservedly the lowest discount on the sector. Over ten years, 3i has generated a higher share price return than any rival: almost 750 per cent. The next-best performer is NB Private Equity at 429 per cent, according to the Association of Investment Companies.

3i's star performer is Action, the non-food discounter, which by the end of June had grown to account for 51 per cent of the value of the portfolio. The Dutch retailer has expanded across Europe and grown by almost 20 per cent since the end of last year alone and has more than doubled since 3i increased its stake at the start of 2020.

Inflation, and the impact on both operating costs and consumers' spending, is a natural risk for Action's profits and therefore any dividends 3i receives from it. Thus far, trading has held up well, with profits over the first six months of this year more than double pre-pandemic levels and ahead of the same time last year.

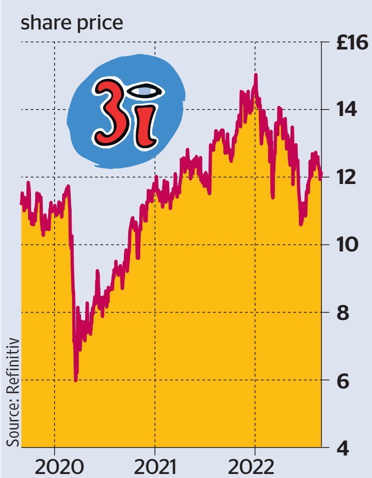
What about a markdown in Action's valuation? The profit multiple of 18 applied to earnings generated by the retailer over the past 12 months and used to value 3i's stake is the same as last year's, when inflation was weaker. But it is based upon the price achieved by another investor that sold a 34 per cent stake in January 2020. Since then, profit multiples for the peer group have moved higher. Those of North American rivals are higher still.

3i has a good track record of realising investments at a higher level than their carrying value. Even in the depths of the pandemic, when deal volumes on the broader investment market were wafer-thin, it realised disposal proceeds for its only big sale, of Kinolt, an industrial specialist, above the March 2020 valuation and at an internal rate of return of 12 per cent.

The company is a long-term holder of assets, typically cashing out after five or six years and running better-performing bets such as Action for even longer. Any short-term blip in the valuation of its assets does not need to be crystallised because, crucially, it is not reliant on selling investments to finance new deals. It had £426 million in cash on the balance sheet at the end of June and it has since increased undrawn debt facilities to £900 million, with gearing standing at only 4 per cent. The liquidity is aside from any cash income from the companies it has invested in, helping to mitigate risk from the higher cost of capital and the downturn in the economy that has dented public market valuations.

Its NAV has returned 6.6 per cent during the first quarter of its financial year, half the rate generated during the same period last year but a whisker higher than the pre-Covid level. Even if the rate of growth eases, investors should pay heed to the magnitude of the compound gains the company has delivered.

Three cheers



Top ten investments by value

	March	June
Action	£7,165m	£7,811m
3i Infrastructure	£934m	£884m
Cirtec Medical	£513m	£563m
Scandlines	£533m	£541m
Havea	£304m	£453m
Tato	£407m	£449m
Luqom	£448m	£395m
nexeye	£345m	£388m
SaniSure	£277m	£350m
Royal Sanders	£297m	£310m
Total*	£14,305m	£15,101m

*Total portfolio valuation June 30 and March 31

ADVICE Buy
WHY The discount and a strong track record compensate for any uncertainty over private company valuations