

## Business Markets

# Masterclass in how to defy gravity

### 3I GROUP

Market value £10.6bn NAV per share 905p Interim div 17.5p

**A**s a private equity investor with plenty of exposure to the travel and automotive sectors, 3i really should have been brought lower by the coronavirus pandemic (Miles Costello writes).

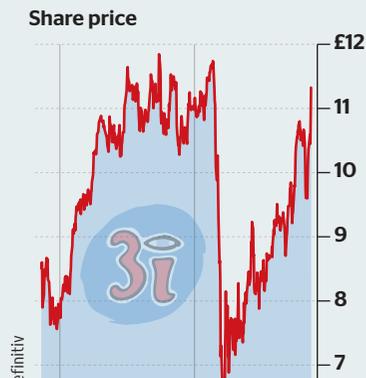
Yet the blue-chip investment group's results for the first half, published yesterday, defied even its own performance expectations, which it had marked lower in May when it published its annual results.

It is not immune to Covid-19, of course, and parts of the portfolio are suffering, but so far this has been more than balanced by strength elsewhere.

3i traces its history back to 1945 and a £15 million fund called the Industrial and Commercial Finance Corporation, set up by the government to help companies rebuild after the end of the Second World War. It changed its name to 3i during the late 1980s, listed on the stock market in 1994 and is now a member of the FTSE 100 valued at more than £10.5 billion.

The group is unlike most private equity investors, and not just because it is listed. For starters, it does not raise money from outside parties, using its own capital to invest in small and mid-sized businesses, mainly in Europe and the United

### Going strong

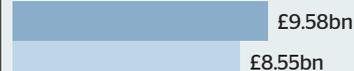


**ADVICE Buy**  
**WHY Portfolio is diverse and high quality and the shares remain modestly priced with a respectable yield**

States. It invests in both privately owned and quoted companies and owns a 30.2 per cent stake in 3i Infrastructure, a listed backer of assets including wind farms, fibre-optic networks and aviation.

Over the six months to the end of September, 3i's returns from the private equity portfolio really motored, delivering a gross

### Portfolio value



### Total return



### Realisation proceeds



### Cash invested

investment return of just under £1.25 billion, almost double the comparable £666 million for the same period last year.

That was in no small part due to a £644 million mark-up in the valuation of its 52.6 per cent stake in Action, a fast-growing Dutch non-food discount retailer.

Action was hit hard during the first two months of the pandemic, having to close outlets in countries including France, Belgium and Germany. However, all of its shops reopened in May and have continued to trade since, albeit selling a reduced range. It has also opened 115 new stores.

3i's stake in the retailer is valued at £4.27 billion, equivalent to a

reassuringly modest multiple of its run-rate earnings this year of 18 times.

It would be a mistake to think that life is all plain sailing for 3i, however, and some of the companies it invests in are feeling the pressure.

The group has a holding in Audrey Travel, a luxury tour operator that has been hit by restrictions and cancellations, for example. Although 3i injected about £50 million into the company during the period, its investment still accounts for less than 1 per cent of the portfolio.

There is also 3i Infrastructure's substantial stake in TCR, which provides ground support equipment at about 100 airports and is likely to be hit by the aviation downturn.

The group's portfolio is relatively shielded from the downturn in stock markets — and the holding in 3i Infrastructure has performed well this year. However, prospective investors need to bear in mind that valuations for private companies are benchmarked against those of their quoted peers and so can be volatile.

Standing back, there is much to commend 3i, a consistently strong performer in recent years.

The shares, up 27p, or 2.5 per cent to £11.11 yesterday, have risen by more than 135 per cent in the past five years and trade at a premium of more than 24 per cent to the net value of its assets.

Yet at a multiple of only 6.3 times Barclays' forecast earnings, and with a prospective dividend yield of 3.27 per cent, they look attractive.