

Business Markets

31

Market value
£11.6bn

**Net asset value
per share** 918p

Anyone who thought 3i was a diversified private equity group hasn't been paying attention (Patrick Hosking writes). True, the FTSE 100 group has stakes across many industries, but it is also a massive punt on just one business — the continental non-food, no-frills discounter Action.

3i owns 53 per cent of Action and it accounts for 45 per cent of its entire portfolio. As recently as November 2019, it injected another €600 million into the business, adding to its exposure. Three months later, many stores across Europe closed temporarily and stockholders could have been forgiven for wondering whether this huge, lumpy bet was such a good idea after all.

But full-year results from 1,700-store Action show the business in good fettle and good heart. Net sales grew by 9 per cent to €5.6 billion in 2020, while operating profits were up 12 per cent to €609 million.

The picture was less pretty on a like-for-like basis. But the 1.4 per cent fall in same-stores sales was fairly resilient, given lockdowns across five months in the spring and autumn.

Action doesn't do home delivery but its offering of click-and-collect

and "by appointment" shop visits kept the income coming in.

There is huge pent-up demand. In the four markets where Action was able to keep shops open throughout the first ten weeks of this year, the slowest growth was 25 per cent. The low prices, wide ranges and constant surprise new products seem to be a potent formula.

As of December 31, 3i valued its Action stake at £4.27 billion, valuing the business at 18 times profits.

Action is likely gradually to recede in importance to 3i as younger and faster growing businesses in the portfolio emerge. Royal Sanders, the white-label toiletries maker, and Luqom, the German light fittings retailer, are promising. It would be surprising if 3i did not float some of these businesses this year.

3i shares are trading at a premium of 30 per cent to net assets. Not cheap, but the premium has bobbed around the 20 to 50 per cent mark. Restrictions in Europe are not going to end any time soon. But a bounceback on the Continent is still on the cards for late summer, with Action and 3i well placed to benefit.

ADVICE Buy

WHY Action is a gem and other holdings float this year