

Business Markets

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



Action helps dispel doubters' gloom

3i

Dividend yield
2.9%

Premium to net asset value 6.3%

Confidence in private equity funds has been in short supply as a sharp rise in interest rates has sowed doubt into the strength of corporate valuations. 3i Group is one of only two London-listed investment trusts to have been afforded a premium against the net value of its assets, in a sector that has suffered a bruising sell-off over the past 18 months.

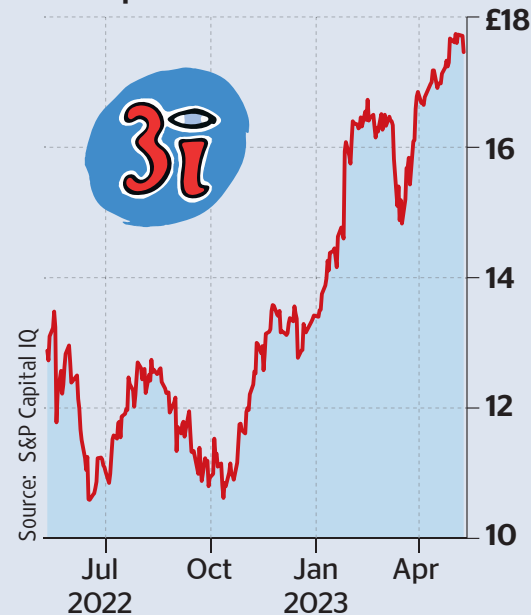
3i's ascent is against the odds in a risk-off market. Backing 3i is taking a bet on Action, the Dutch discount retailer that has spread into 11 countries across Europe. The chain, which 3i controls with a stake of almost 53 per cent, now accounts for 61 per cent of the fund's £18 billion portfolio of investments. Pressure on consumer wallets and discretionary spending might make the singularity of that focus more troubling.

But for any doubters, the strength of Action's performance amid the macroeconomic gloom is the best riposte. Last year the business grew revenue by 30 per cent and adjusted operating profit by 46 per cent, to €8.9 billion and €1.21 billion, respectively. Over the past 18 years sales have grown at a compound annual rate of 24 per cent and profits are up by an annual average rate of 27 per cent over the same period.

In turn, that drove a 32 per cent rise in 3i's net asset value to £17.45 a

One in the i

Share price



ADVICE Buy

WHY Strong growth prospects for Action should continue to drive the trust's net asset value

share. Analysts at Numis increased an NAV forecast of £18.96 a share for the end of next March to £21.27 after a better half-year outturn.

That healthy performance should give confidence in the validity of Action's valuation, which marked up by another £3.7 billion for the 12 months to the end of March, in addition to the £325 million in dividends paid to 3i over the year.

Top ten holdings

% of portfolio value

Action	61%
3i Infrastructure	4.6%
Scandlines	3%
Cirtec Medical	3%
Tato	2.2%
nexeye	2.1%
SaniSure	2.1%
Royal Sanders	2%
AES Engineering	1.9%
Evernex	1.7%

The profit multiple of 18.5 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.

Yet the multiple is based upon the price achieved by an investor that sold a 34 per cent stake in January 2020. In reality, profit for the business grew by 46 per cent last year and by 34 per cent in 2021; an average of those figures would produce an earnings multiple of 12 or 13 times on a prospective basis.

The shares trade close to a record high, recovering a dip taken when central bankers first started to tighten monetary policy at the start of last year. That aside, the shares' ascent has been remarkably

constant. Over ten years, 3i has generated a higher share price return than any rival, at just over 632 per cent, more than twice the next best. The fund is the largest listed in London, after the dramatic comedown suffered by tech-focused trust Scottish Mortgage.

What about realising investments? The market for floating companies on the public markets has been severely constrained by rising interest rates and a darker outlook for economies across the globe. However, those that 3i has executed over the past financial year generated total proceeds of £857 million and included the sales of French healthcare group Havea and German jeweller Christ at uplifts of 50 per cent and 45 per cent, respectively to their opening values.

The group has enough cash to give it breathing room while markets are tight. After paying a £200 million fixed-rate bond due in March, liquidity has been left at £1.3 billion and conservative gearing of only 2 per cent, down from 6 per cent at the same point last year.

It hasn't been all plain sailing. The company reduced the earnings multiples used to value eight of its investments in the latter half of last year, resulting in a writedown of over £200 million in the value of Luqom, an online lighting specialist, and more than £100 million for Ydeon, a German home and garden retailer.

3i shares may trade at a rare premium within the private equity sphere, but at the pace 3i is growing its NAV, that doesn't seem a stretch.