

Business Markets

Lauren Almeida *Tempus* Buy, sell or hold: today's best share tips



3i

Market cap
£29.2bn

Dividend yield
2.1%

The private equity industry has somewhat of a reputation problem. Faith in these funds has wobbled in recent years, especially as higher interest rates have undermined some overly generous valuations. Yet the market appears to hold 3i Group, the British private equity and infrastructure investment company, in high regard.

Shares in the business continue to change hands at a premium to their reported net asset value, at 42 per

cent. Excluding 3i, the rest of the investment companies in the private equity sector trade at an average discount of 30 per cent.

The group has delivered a total return of just over 24 per cent so far this year alone, thanks in part to a €1 billion payout from the Action, the Dutch discount retailer, which made up 65 per cent of its portfolio as of the end of its last financial year.

3i's £22 billion investment portfolio is mostly invested in "value for money" consumer brands and private labels, with about 9 per cent in infrastructure and in Scandlines, a European ferry operator. The remainder of its portfolio is spread

across healthcare, retail, industrial technology, services and software and travel.

However, its concentration in Action means that this investment is most likely to affect its performance. The chain, which 3i controls with a 57.6 per cent stake worth £14.8 billion, has performed very well. In the first half of this year, its operating profits rose by 23 per cent to €843 million. It has been expanding fast, adding 119 new stores in that period alone.

There have not been many recent realisations in its portfolio, apart from the recently agreed sale of Nexeye, a glasses retailer that is its seventh largest holding, which is

expected to be completed by the end of this month and to generate proceeds of about €452 million. In the meantime, 3i has plenty of cushion. It had £1.2 billion in liquidity as of the end of June and gearing at a stable 4 per cent. The premium on the shares is certainly steep, but it reflects the strong quality of 3i's underlying investment portfolio.

ADVICE Buy
WHY Strength from Action should support NAV