

Markets **Business**

Backing infrastructure for growth

3I INFRASTRUCTURE

Market cap
£3.3 billion

Dividend yield
3.7 per cent

After the unedifying on-off saga of HICL Infrastructure's attempt to merge with The Renewables Infrastructure Group (Trig), it may be time for the sector's followers to look elsewhere.

New roads, bridges, railways and utilities are a key plank of the UK government's growth plans. The budget reinforced the commitment to roads, rail, and energy, including the Lower Thames Crossing and other upgrades around the country.

Unlike HICL and Trig, which metaphorically wield the picks and shovels themselves, 3i Infrastructure (3IN) invests in mid-sized companies that do the hard work, actively managing them to increase value, capital growth and income. That approach brings higher risk, but potentially higher return.

The company is an outcrop of 3i Group, which holds 29 per cent of the shares. The portfolio currently numbers 11 investments, ranging from a provider of rescue services to offshore energy operators in the North and Barents seas to oil and chemical storage terminals in Singapore.

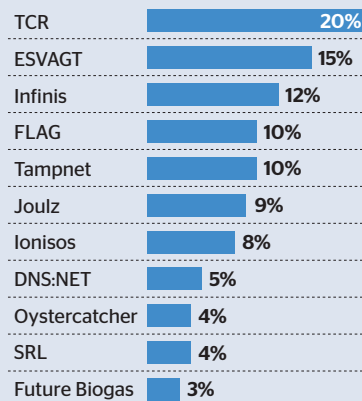
Nearer home, 3IN owns shares in several British firms including Flag, a fibre-optic network supplier.

It concentrates on four higher-performing categories: essential infrastructure, energy transition, digitalisation and demographic change. The latter is not an obvious

Momentum building



Portfolio breakdown



ADVICE Buy

WHY A leading performer in a sector underpinned by solid long-term demand across the world

add-on, but by stretching a point it includes Ionisos, a French owner and operator of cold sterilisation facilities for medical devices, pharmaceuticals and cosmetics.

Importantly, 3IN takes stakes big enough to be a highly active investor, going on the boards to streamline operations so it can hopefully sell out at a profit and recycle the proceeds into fresh prospects.

While traditional infrastructure trusts prioritise income, 3IN targets 8 per cent to 10 per cent total annual

return on net asset value (NAV). It has already recorded 7.4 per cent for the half-year to September 30, so is well ahead of schedule. Over the past decade, the annual return has averaged 12.5 per cent.

Analysts at Deutsche Numis calculate that, since it was floated in 2007, 3IN has raised £3.3 billion from sales, more than three times the cost of the original investments.

One problem with this model is that the infrastructure sector has moved from its shares trading at net asset value premiums to discounts, making it harder to raise new capital through the stock market. The 3IN discount, 10.5 per cent, is not particularly large, but is enough to be a deterrent. "In terms of funding, the equity market shut when we moved to a discount," James Dawes, the chief financial officer, said.

If that also cuts the flow of funds from disposals, the ability to fund new growth opportunities could be constrained. A test of the temperature may arise soon as the firm is thinking of selling TCR, a lessor of airport ground support equipment, which operates in 230 airports in over 20 countries. If that fetches a decent price, then 3IN may benefit from depressed valuations elsewhere, to bring the portfolio up to the dozen or so it prefers. Even so, having that few investments means it cannot afford many duds.

So far, so good. Since a dip to 301p in April on the Trump tariff scare, the shares have progressed steadily to 365p, the highest since April 2022. NAV has been a strong pull factor, rising from 386.2p to 407.9p between March and September.

The company's growth bias, and the constant need for reinvestment cash, mean that it does not offer the 7 per cent-plus yields available elsewhere on the infrastructure scene, currently paying 3.7 per cent. Its target for the year to next March is 13.45p a share, which would be a 6.3 per cent increase on last year. Reassuringly, this is expected to be fully covered by net income.

So 3IN is tailored for investors seeking infrastructure capital appreciation, with a respectable dividend on top. And its £3.3 billion market capitalisation puts it on the doorstep of the FTSE 100. If it can qualify, its shares would be boosted by going on the buy lists of even more institutions than its register already boasts. This column rated 3IN a buy earlier this year, and events since then have if anything strengthened that argument.