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There is a bargain to be had while markets misjudge this proven infrastructure trust

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TRUST BARGAINS

With a track record of good returns, the investment company has earned its stripes

SOMETIMES even the most reliable, well-run company can fall out of favour. How you react to that as an investor will depend on your mindset. Questor sees an investment trust trading at an unusually wide discount to net asset value (Nav) and wonders whether there is a bargain to be had – 3i Infrastructure might fit that description.

The trust was launched in 2007 and, adjusting for a hefty special dividend in 2018, the Nav and the dividend have made fairly steady positive progress since. The average annual Nav total return over the past 10 years is just shy of 14pc and the dividend has risen from 7p to 12.65p over that period.

Thanks in part to that track record the shares have tended to trade at a substantial (perhaps excessive) premium to Nav for most of the company's life. However, that changed in September 2022 and today the discount to Nav is around 15pc. The net effect of this change in the rating is that the share price has made little to no headway over the past three years.

Infrastructure ought to be a relatively safe investment; these are assets that provide essential services over the long term and reasonably predictable income. However, that does not mean that they are risk free.

Unfortunately, that combination of asset-backing and predictable income makes them easy to load up with debt – as we have seen with the UK water companies. There are also risks at the planning and construction phase, as with HS2. However, for a good investment manager, these are risks that can be navigated successfully.

3i Infrastructure's earliest investments included a stake in Anglian Water and some in private finance initiative (PFI) projects such as schools and hospitals. However, the first big win for the portfolio came from a £151m investment made in 2011 in Eversholt, a train leasing company that the trust acquired and then grew.

This deal typified the trust's focus on core infrastructure businesses that could deliver a combination of capital growth and income, rather than just a predictable income stream.

Eversholt was sold in 2015, crystallising a 3.4x return on the investment. By then it owned 28pc of the UK passenger train fleet. Anglian Water was sold in 2017. It generated a 3.3x return on 3i's investment.

In the meantime, in 2014, the experience gained with Eversholt had given 3i Infrastructure the confidence to finance a new fleet of trains for the Thameslink franchise – that was sold in 2019, earning the trust a 5.9x return. A common feature of these and other exits achieved by 3i Infrastructure was that the sale price was at a substantial premium to the previous carrying value (an average uplift of 37pc over the past 10 years). This suggests that the trust's Navs are conservative.

The most recent significant exit (at a 31pc premium to the undisturbed price) was of Valorem, a developer of renewable energy in Europe. From an initial investment in 2016, Valorem expanded its focus from French onshore wind generation to include solar and hydro generation across France, Finland, Greece and Poland. 3i Infrastructure made 3.5x its money.

Today, the largest exposures are: TCR, a Belgian business that owns and leases ground support equipment used at over 210 airports; ESVAGT, which operates a fleet of service vessels for offshore wind farms and emergency rescue and response vessels servicing the offshore oil industry; Infinis, which turns methane from UK landfill sites into power; and Tampnet, a Norwegian company that owns communications assets such as fibre optic cables operating in the North Sea and the Gulf of Mexico. Together, these four positions account for half the Nav.

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With the proceeds of the Valorem sale in the bank, the trust has a sizeable war chest to pursue new acquisitions or to pay down debt. With the discount where it is, the board might even consider share buy backs.

Questor believes the widening discount was a response to rising interest rates and government bond yields. However, in this respect, economic conditions today are much closer to those prevailing at the time when 3i Infrastructure was launched. In its latest update, the 3i team indicates the majority of the portfolio is performing ahead or in line with expectations. Questor believes the sell-off in 3i's shares is overdone.

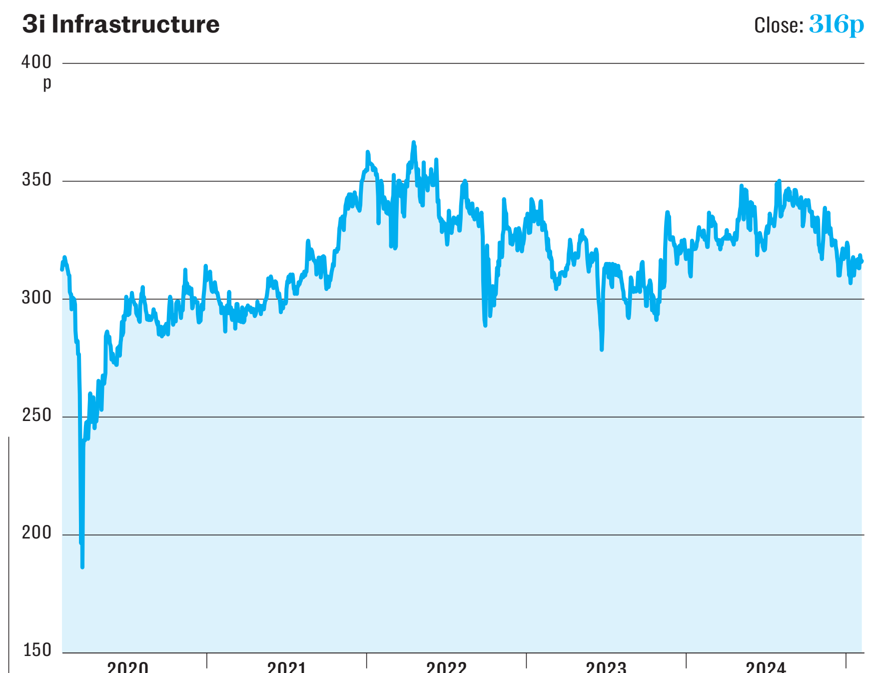
Questor says: Buy
Ticker: Ticker: 3IN
Share price at close: 316p

James Carthew is co-founder and head of investment companies research at QuotedData

3i Infrastructure

BUY

The net asset value (Nav) and the dividend have made fairly steady positive progress. The average annual Nav total return over the past 10 years is just shy of 14pc



Key numbers

- **Market value: £2.9bn**
- **Year of listing: 2007**
- **Discount: 15.4pc**
- **Average discount over past year: 9.3pc**
- **Yield: 4pc**
- **Most recent year's dividend: 11.9p**
- **Gearing: 15pc**
- **Annual charge: 1.65pc**

Read Questor's rules of investment before you follow our tips: telegraph.co.uk/go/questorrules