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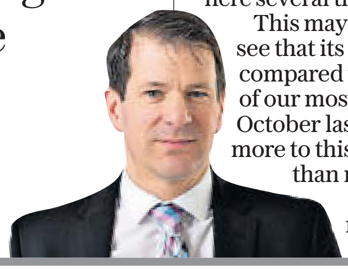
Business

This trust’s discount has narrowed dramatically. Here is why you should still buy

Questor
Trust Bargains

RICHARD EVANS

Oakley Capital Investments may have lost its 19pc discount – on paper at least – but we expect a strong performance this year



Investment trust bargains are thin on the ground at present. “I’m struggling to find value anywhere,” Peter Walls, who buys listed funds for his Unicorn Mastertrust, tells Questor.

“The average trust trades more or less at par value, whereas in the past a double-digit discount has been typical.”

Pressed by this column to say where he would deploy new money that came his way, he opts for private equity trusts, of which his fund holds a handful, and in particular Oakley Capital Investments, tipped here several times in the past.

This may surprise readers who see that its discount is just 4.3pc, compared with 19pc at the time of our most recent update in October last year. But there is more to this particular discount than meets the eye.

First we should reiterate a general point about the discount figure for any trust that invests in unquoted assets. Such figures depend on the net asset value, which for these trusts is not an objective fact, as it is for those that invest in quoted assets, but more a matter of opinion. Or perhaps, more accurately, a matter of the valuation methodology chosen by the trust in question.

> Oakley Capital Investments
>
> **Buy**
>
> **Conservative valuations make reported discount not all it seems**

Oakley values its assets only twice a year. Its last valuation was at the end of June; any rise in their value since then is not reflected in today’s discount. Any such increase makes the true discount wider than that 4.3pc official figure.

And there is good reason to think that its NAV has indeed risen.

The value of at least one of its assets has certainly increased – by no less than 134pc. One of the funds in which the trust invests, managed by the same firm that runs the trust itself, last month sold a company called TechInsights for that impressive premium relative to the valuation that the trust gave it in June.

This impressive uplift reflects the conservatism of Oakley’s approach to valuing its investments. Its strategy is to buy businesses cheaply – for example, when it invested in TechInsights in 2017 it paid just 5.7 times its earnings on the “Ebitda” measure. When it updates the valuation of its businesses twice a year, it tends not to raise the valuation multiple (that 5.7 figure in the case of TechInsights); instead it increases its estimate of value only in line with the earnings growth achieved by the business, one investment trust analyst tells Questor.

However, if under its stewardship its investments prosper, outside investors will of course ascribe a greater multiple to its earnings, just as they would for quoted stocks. We discover just what multiple they are prepared to pay when the business is sold. That figure of 134pc for TechInsights relative to the trust’s most recent book value gives us a sense; over the longer term the holding realised 18.8 times what Oakley paid for it five years ago.

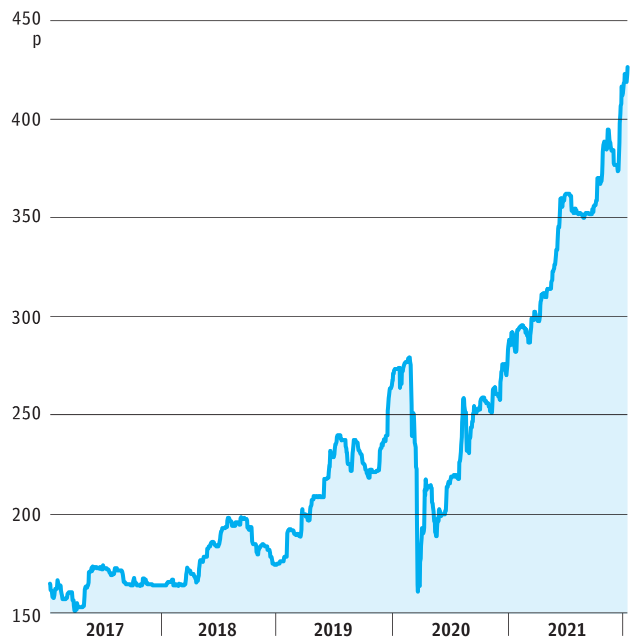
We can’t expect such gains from every one of the trust’s holdings, of course. The point is more that conservatism is built into its NAV figures, which makes the discount look narrower than perhaps it really is.

And even if the trust’s official NAV takes into account only the earnings growth of its holdings, we can expect decent gains. “Its underlying companies are delivering very strong growth in earnings per share – probably 35pc in 2021,” says Walls.

Better still, he says he expects “more profitable exits” over the next two years.

“What we like about this trust is its exposure to sectors with strong long-term growth potential, namely technology, online consumer and online education, along with a management team that’s adept at sourcing deals through a network of entrepreneur contacts and is hence able to buy businesses in a non-competitive process at attractive levels – not to mention its conservative valuations,” he says. “We expect a strong increase in its NAV figure for the end of December when the results are released in early March.” We have made 18.8pc since our tip in October but think there is further to go. Keep buying.

Questor says: buy
Ticker: OCI
Share price at close: 426p



Key numbers

- **Market value: £761m**
- **Year of listing: 2007**
- **Discount: 4.3pc**
- **Ave discount over past year: 15.9pc**
- **Yield (Dec 2020): 1.1pc**
- **Most recent year’s dividend: 4.5p**
- **Gearing (Jan 2022): nil**
- **Annual charge (Dec 2020): 2.46pc**

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