Trading update: Oakley Capital Investments

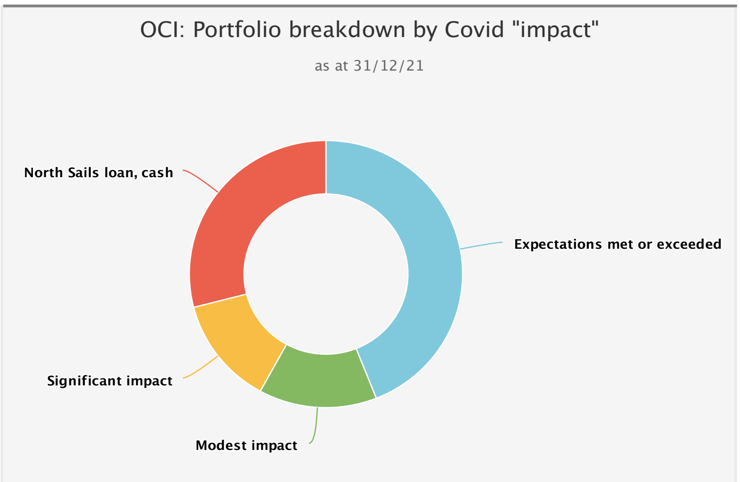
OCI reports a strong NAV, up an impressive 14% since 30 June 2020...

Oakley Capital Investments' (OCI) NAV at 31 December 2020 was 403p, based on portfolio company valuations at the year-end. This represents an increase of 14% since 30 June 2020, and brings the total return for 2020 as a whole to 18%.

OCI makes its investments solely through Oakley Capital, and has a relatively concentrated portfolio of growth companies in three sectors: technology, education and consumer. 12 of the 17 investee companies deliver their products or services digitally, which means they continue to benefit from the trends that accelerated in 2020.

Equity investments in companies can be separated into three 'COVID-19 impact' categories based on a full year of trading to 31 December 2020. OCI reported that three companies moved from "Modest impact" to "Expectations met or exceeded" since 30 June 2020.

Fig.1: Portfolio Breakdown



Source: Oakley Capital

In common with other listed private equity trusts, there was no shortage of underlying activity, with cash proceeds received during the year of c. £341m and investments made of £152m. During the period, OCI also completed the buy-back and cancellation of 18 million shares at an average price of 230p per share, resulting in a NAV uplift of 12.6p.

Kepler View

This represents a strong result for OCI, especially when one considers that over the year around a third of NAV has been represented by cash. A total return of 18% over 2020 compares to the FTSE World Index return (in Sterling) of 12.7%, the FTSE AW Europe ex UK return of 7.8% and the FTSE All-Share return of -9.8%. We have highlighted what we view as OCI's resilient portfolio before, but the news that three companies moving up to the "expectations exceeded" category since 30 June 2020 is to be welcomed, and augurs well for the future given the continuing lockdowns this year.

Being one of the few "directly investing" listed private equity (LPE) trusts, OCI is ahead of all LPE peers in terms of reporting. The time lags involved for other trusts mean that only Princess Private Equity has so far released its NAV (+10% for 2020). Most other 31 December 2020 NAVs so far announced (NBPE, HVPE, Pantheon etc) represent a majority of underlying valuations as at 30 September 2020.

In terms of market activity – echoed by OCI's announcement – private equity funds are seeing no shortage of opportunities to realise investments, nor make new ones. Oakley have reported two post balance sheet transactions, with a partial realisation from Daisy (cash in of £22m) and a new investment of £43m in Idealista, an online classified business in southern Europe. OCI's tech-enabled portfolio companies remain exposed to some strong secular growth trends.

OCI has a significant cash balance (gross cash of 31% of NAV) which gives the trust plenty of flexibility. We note that this is significantly above the long run average thanks to two large exits achieved in early 2020, which came at an opportune time for making new investments. With outstanding commitments (at the year end) of £534m, commitment cover is 0.41x. Oakley make the point that commitments are expected to be invested over a five year period, implying that that this should not overly concern investors at the current stage.

Despite the share price moving up c. 4% on the day of the announcement (27/01/2021), OCI trades on a discount to NAV of 27% (as at 28/01/2021, according to estimates from Numis). This represents a big discount in absolute terms and relative to peers. We believe that its longer-term performance track record, its growth focus and exposure to businesses which deliver goods and services digitally, as well as the significant cash balances which give it plenty of room for manoeuvre, mean that OCI deserves a premium rating to peers.

We expect more detail on the underlying portfolio when OCI reports its annual results on Thursday 11 March 2021.

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