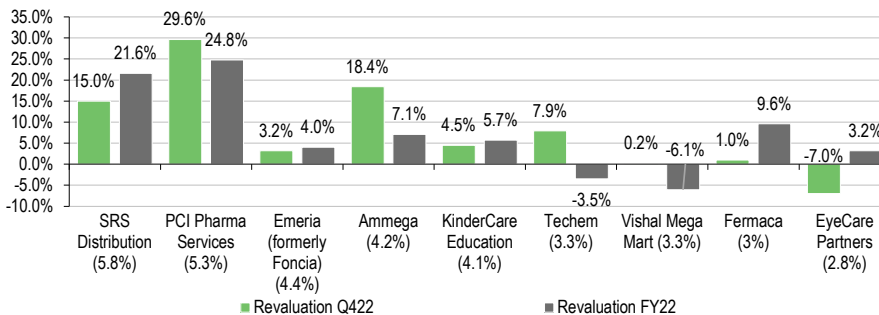


Princess Private Equity

Planning to resume dividend payments in June

During its Q422 results release, Princess Private Equity (PEY) announced the discontinuation of its foreign exchange (FX) hedging strategy from 1 April 2023 and an upsizing of its credit facility from €110m to €140m in response to the holding-level liquidity constraints it faced in late 2022. We believe investors should welcome these measures, as they facilitate PEY's balance sheet management while allowing it to stay close to fully invested (investment level at 101.3% at end-January 2023) and to resume its dividend payments in line with the policy of paying out 5% of opening net asset value (NAV).

Contribution of PEY's largest holdings to portfolio revaluation



Source: Company data. Note: Share in PEY's end-2022 NAV shown in brackets.

Abandoning FX hedges and upsizing its credit line

The discontinuation of FX hedging of its portfolio aligns PEY's practices with its LSE-listed private equity (PE) peers. The hedging contracts it currently has in place are all short duration and will be closed out as of 31 March 2023. This move will reduce the cash flow volatility at holding level by removing the cash inflows/outflows from hedges (even if at the expense of additional NAV volatility through unhedged FX changes). PEY had €60m outflows from FX hedges in 9M22 (due to a strong US dollar, exposure to which represented 45% of PEY's portfolio at end-2022). This was partly reverted in Q422 as the euro regained some of the earlier losses against the US dollar, resulting in €30m inflows from hedges to the company.

Moreover, PEY decided to upsize its senior revolving credit facility with Lloyds Bank Corporate Markets from €110m to €140m, with its maturity extended from 14 December 2024 to 13 December 2026. Key terms, such as a loan-to-value covenant at 25% and a minimum NAV of €500m, remain unchanged. We suggested the possibility of an upsizing of the credit facility in our [previous update note](#) given its size in relation to PEY's portfolio value (13.6% following the upsizing) was below peer average of c 18%. The €110m line remained undrawn at end-2022.

Wide discount to NAV translates into a 7.3% yield

Given PEY's current 33% discount to last reported NAV (versus 10-year average of c 17%), the next interim dividend payment (expected in June at €0.36 per share) implies an attractive annualised yield of 7.3%.

Investment trusts Private Equity

3 March 2023

Price Ord. €9.84
Price (PEYS) 855p
Market cap €680m
NAV* €1,018m

NAV per share* €14.72
Discount to NAV 33.2%
Yield (LTM) 3.9%
Shares in issue 69.2m
Code (EUR/GBP quote) PEY/PEYS
Primary exchange LSE
AIC sector Private equity
52-week high/low €13.20 €7.80
NAV high/low €15.26 €13.76

*As at end-January 2023

Gearing

Net gearing at end-Jan 2023 0.0%

Fund objective

Princess Private Equity Holding is an investment holding company domiciled in Guernsey that invests in private equity and has a minor private debt position. Its portfolio consists mostly of direct investments but may also include primary and secondary fund investments. It aims to provide shareholders with long-term capital growth and an attractive dividend yield.

Bull points

- Focus on building resiliency in portfolio companies and on transformative trends; high exposure to resilient sectors (eg healthcare).
- Discontinuation of FX hedging and upsizing of credit facility improves balance sheet flexibility.
- Available at a wide discount to NAV.

Bear points

- A persistently weak exit environment may further impact PEY's new investment activity and liquidity.
- NAV TR somewhat below peer average in recent years.
- Suspension of the second interim dividend last year weighing on sentiment.

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NAV broadly stable in TR terms in FY22

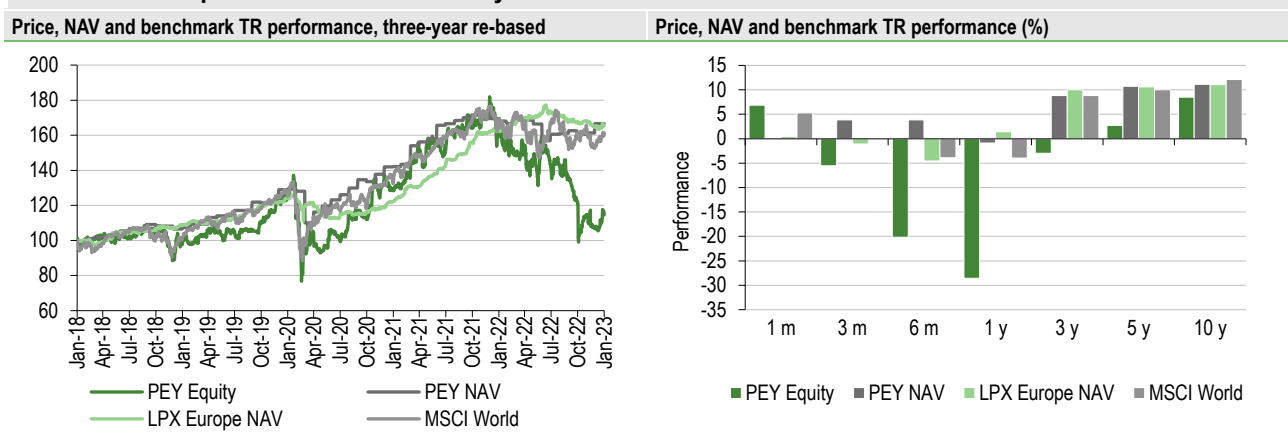
PEY posted only a slight NAV total return (TR) decline in FY22 of 1.6% and therefore fared much better than public markets. This outperformance was likely assisted by a more resilient portfolio mix – the investment manager estimates that, after reflecting the sector composition across the Partners Group 2022 platform, the decline in the MSCI World Net TR Index in 2022 would have been 10.2% versus the actual decline of 18.1%. Additional support came from solid EBITDA growth of 15.7% across the platform in 2022 versus 8.3% for the sector-adjusted public markets and 5.7% for the MSCI World Index (though we note that these figures may contain a varying degree of contribution from M&A activity). EBITDA growth across PEY’s portfolio in 2022 was similar to that of the broader Partners Group 2022 platform at 16.1%, with revenue up 23.8% (the mismatch between PEY’s and the Partners Group 2022 platform’s figures comes from different portfolio weights of individual companies).

Part of the NAV outperformance versus public markets likely comes from the common techniques applied to value private equities (see our recent [sector note](#) for details). However, we note that PEY’s portfolio is being revalued every month (more frequent than for its LSE-listed peers) and that the average last 12-month EV/EBITDA multiple across the Partners Group’s (PG’s) PE portfolio of 14.5x as of Q422 is close to the multiple for public markets on a sector-adjusted basis at 14.3x, according to PG’s estimates (headline figure for the MSCI World Index was 10.9x). The ratio for PEY’s portfolio was somewhat higher at 16.0x at end-2022 (with net debt to EBITDA ratio at 6.1x).

PEY’s top-three value contributors in 2022 were PCI Pharma Services (a provider of contract development and manufacturing services to the biopharma industry), SRS Distribution (US distributor of roofing products) and Apex Logistics (active in the cross-border air and ocean freight forwarding market) – see exhibit on the front page for a summary of key revaluation contributors (Apex Logistics is not presented as its financial details remain confidential).

PEY’s NAV increased by 0.7% in January 2023. As a result, the company’s three-, five- and 10-year NAV TR to end-January 2023 stood at 9.1%, 10.9% and 11.2% pa in euro terms, respectively. This is broadly in line with the TR posted by the MSCI World and LPX Europe NAV indices over the period.

Exhibit 1: PEY’s performance to 31 January 2023 in euro terms



Source: Refinitiv, Edison Investment Research. Note: Three-, five- and 10-year performance figures annualised.

Exhibit 2: Five-year discrete performance data

12 months ending	Share price (%)	NAV (%)	LPX Europe NAV (%)	MSCI World (%)
31/01/19	(2.2)	7.4	8.8	2.0
31/01/20	28.4	20.5	14.2	22.6
31/01/21	2.3	9.9	(1.8)	5.9
31/01/22	24.9	18.3	33.6	26.8
31/01/23	(28.9)	(0.2)	1.4	(4.0)

Source: Refinitiv. Note: All % on a TR basis in euro.

Having said that, PEY's three- and five-year performance is below most of its LSE-listed peers (see Exhibit 3), which may be due to several factors. Firstly, PEY's manager highlights that its portfolio was less exposed to sectors that saw a greater multiples expansion following the COVID-19 outbreak (eg IT) than some peers. This includes some listed PE peers with exposure to venture capital/growth investments (usually strongly skewed towards tech). Secondly, PEY's FY21 NAV TR of 19.4% was below peer average partially due to a material cash drag stemming from record-high disposals (only partly mitigated by the senior loans allocation). Finally, PEY's hedging policy also had a minor negative impact as positive portfolio revaluation coming from the stronger US dollar against the euro was offset by hedging losses. PEY's 10-year NAV TR is also below peer average, but we note that it captures a period of portfolio transition away from the legacy fund investments to direct investments (the former represented only 2% of PEY's portfolio at end-2022).

PEY's discount to NAV of c 33%, while being much wider than the historical average, is broadly in line with its peers and reflects, apart from company-specific aspects, a broader trend in the listed PE sector. This may come from investor anxiety over, among others, 1) portfolio valuations across the PE sector, as these have been marked down modestly so far despite the sharp sell-off in the broader public markets, and 2) balance sheet management of listed PE companies. With respect to the latter, we note the above-mentioned balance sheet measures introduced by PEY and the fact that PEY is a direct PE investor, therefore not pursuing an overcommitment strategy (outstanding commitments at end-January 2023 stood at €100.7m and were therefore fully covered by available liquidity).

Exhibit 3: Listed PE investment companies peer group, at 28 February 2023* in euro terms

% unless stated	Market cap (€m)	NAV TR 1 year	NAV TR 3 years	NAV TR 5 years	NAV TR 10 years	Latest discount	Ongoing Charge	Perform. Fee	Net gearing	Dividend yield (%)
Princess Private Equity	680.5	(0.2)	29.8	67.8	189.7	(33.2)	1.8	Yes	100	3.9
HgCapital Trust	1,851.4	8.3	91.4	175.7	347.7	(20.2)	1.4	Yes	112	2.1
GIMV	1,192.4	(2.7)	2.4	19.5	88.1	(8.0)	4.1	Yes	120	5.9
Oakley Capital Investments	926.9	17.3	89.2	186.9	266.8	(29.5)	2.2	Yes	100	1.0
NB Private Equity Partners	851.3	3.5	70.0	118.7	317.0	(25.7)	2.0	Yes	108	4.8
Deutsche Beteiligungs	558.5	(5.8)	23.2	39.8	177.3	(10.0)	**	Yes	104	0.0
HarbourVest Global Private Equity	1,904.6	8.9	79.1	158.8	385.8	(46.9)	1.3	Yes	100	0.0
Pantheon International	1,562.7	5.5	58.1	112.4	259.1	(43.1)	1.2	Yes	100	0.0
abrdn Private Equity Opportunities Trust	794.0	8.4	73.8	121.4	280.9	(37.3)	1.1	No	103	3.1
ICG Enterprise Trust	886.5	17.7	78.0	130.0	265.7	(39.8)	1.4	Yes	107	2.0
CT Private Equity Trust	381.1	22.6	103.7	139.4	275.9	(34.7)	1.2	Yes	106	5.3
Peer average	1,090.9	8.4	66.9	120.3	266.4	(29.5)	1.5***	-	106	2.4
Rank	10	10	10	10	10	7	4	-	9	4

Source: Refinitiv, Edison Investment Research. Note: *12-month performance based on end-January 2023 or latest available NAV (end-September 2022 for HgCapital Trust, GIMV and CT Private Equity Trust; end-October 2022 for ICG Enterprise Trust; end-December 2022 for Oakley Capital Investments and Deutsche Beteiligungs) **Deutsche Beteiligungs is self-managed and its management fee income charged on third-party capital exceeds its ongoing charges. ***Excluding Deutsche Beteiligungs. Net gearing is total assets less cash and equivalents as a percentage of net assets based on last available data. 100=ungeared.

Investments and realisations slowing down in Q422

PEY's investment volumes were quite high in 9M22 at €134.3m (c 13% of opening NAV versus 2017–2021 annual average at c 15%) but the company reduced its investment activity markedly in Q422 to only €22.4m in Q422 (most of which came from the reinvestment in USIC) to preserve

holding-level liquidity. New investments were focused primarily on the healthcare and IT sectors (see our [previous notes](#) for details), with notable exceptions being Climeworks (a designer, developer and operator of direct air capture plants) and Foundation Risk Partners (an independent insurance broker focused on B2B segments in commercial property and casualty as well as employee benefits).

PEY's distributions excluding redemptions of senior loans (in which PEY had temporarily invested its excess liquidity in late 2021) stood at €109.2m in FY22 (visibly below the €462.5m in FY21), with Q422 distributions (net of the USIC re-investment) at a modest €31.1m.

PEY's manager highlighted that M&A markets remain muted due to still limited availability of debt (see our above-mentioned sector notes for details) and persisting divergence in sellers' and buyers' price expectations. Because of this and the fact that PEY is now fully invested (while its undrawn credit facility will primarily be used for short-term bridging of investments and realisations), the manager expects both new investments and distributions to remain moderate in the coming quarters.

Board changes

PEY also announced that Richard Battey is stepping down from the board and the role of chairman by not standing for re-election (he has been PEY's chairman since August 2018 and a board member for 13 years). Subject to the members' re-election, Steve Le Page will assume the role of chairman from the date of the next AGM in June 2023. All other board members will stand for re-election.

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