HgCapital Trust

Reporting a considerable uplift to NAV

Investment trusts

Following a solid H120, HgCapital Trust (HGT) announced several portfolio transactions representing a considerable uplift to the carrying value at end March 2020 and translating into a c 12.0% ytd NAV total return (TR) to end August. On completion of these deals, HGT's cash resources will improve significantly to £314m from £123m in early July, while its unfunded commitments will decline to £814m. Consequently, HGT's commitment coverage ratio will improve markedly to c 39% vs 13% in early July.

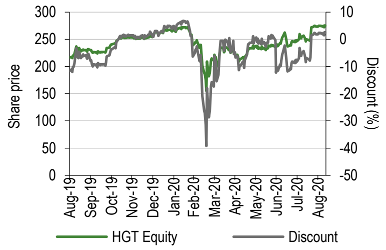
14 September 2020

Price	**275.0p**
Market cap	**£1,123.2m**
NAV	**£1,152.6m***
NAV per share	282.2p*
Discount to NAV	2.6%

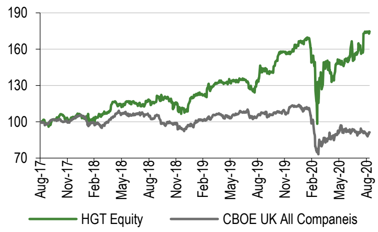
*Pro forma at 21 August 2020

Yield	1.8%
Ordinary shares in issue	408.4m
Code	HGT
Primary exchange	LSE
AIC sector	Private Equity
Benchmark	FTSE All-Share Index

Share price/discount performance



Three-year performance vs index



52-week high/low	275.5p	155.0p
NAV high/low	282.5p	236.3p

Gearing

Gross**	7.5%
Net cash***	£314m

**At end June 2020

***Liquid resources at 31 August 2020 (pro forma)

Analysts

Milosz Papst	+44 (0) 20 3077 5700
Richard Williamson	+44 (0) 20 3077 5700

investmenttrusts@edisongroup.com

Edison profile page

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Several transactions announced recently

In August 2020, HGT announced further investments in Visma and Sovos through the recently launched Hg Saturn 2 fund (investing £17.1m and £40.8m, respectively), together with other institutional clients of Hg (its investment manager). At the same time, however, HGT sold part of its holdings in both companies held through Hg Genesis 7 (a mid-market buyout fund at the realisation stage), reducing its overall exposure. HGT also announced a c £11m investment in F24 (active in emergency notification, crisis and incident management and critical communications), the sale of Citation Group to KKR (with cash proceeds of £25.8m) and an £8.1m investment in Evaluate (we assume through Hg Mercury 2), coupled with a full exit from this company by Hg Mercury 1. Overall, these transactions (which may be considered partial rollovers) represent new investments of £90m and realisations (net of carried interest) of over £250m.

Deals conducted visibly above last carrying value

All four realisations will be carried out above the value reflected in HGT's NAV reported at end March 2020. Visma's new valuation (implying a total enterprise value of US$12.2bn) means HGT's stake is now valued at £268.8m, with an uplift of 35% to the last carrying value. Similarly, the partial exit from Sovos translates into a 58% uplift, while the Citation Group and Evaluate exits (alongside other investors in Hg funds) were completed at 16% and 40% above the end March 2020 valuations, respectively. This suggests HGT has been able to exploit the recent increase in market valuations, in particular in the case of SaaS businesses, discussed in our recent review note. HGT's shares now trade at a c 2.6% discount to its pro forma NAV as at end August 2020 (which, except for the recent transactions, is based on valuations at end June 2020).

Improved coverage of unfunded commitments

HGT estimates that following all the transactions and corporate actions to date (including the dividend of 2.0p per share payable in October), its liquid resources will improve to £314m (compared to £123m in early July, when we last published on HGT). Simultaneously, its unfunded commitments will decrease to £814m, with a coverage ratio of c 39%, according to our estimates. While this is still slightly below its 2015–19 average of 48%, it represents an improvement from 13% in early July and seems quite a safe level, especially given the Genesis 9 and Mercury 3 commitments (making up around half of HGT's overall unfunded commitments) will not be drawn this year, according to the company. Moreover, the company is negotiating a new £200m debt facility (its existing £80m facility is fully drawn).

Interim results reflecting tech resilience

HGT's performance in H120 illustrates both the COVID-19 resilience of its software and services portfolio and positive investor sentiment towards tech companies. Last 12 months (LTM) revenue and EBITDA growth to end June 2020 across HGT's top 20 holdings (representing 88% of portfolio) stood at 23% and 27%, respectively. In H120 alone, these figures stood at a robust 17% and 27% y-o-y respectively, with only a limited decline in organic growth in Q220, according to the company. At the same time, the average EV/EBITDA multiple for its top 20 investments was 20.6x (vs 19.6x at end March 2020) and net debt to EBITDA stood at 6.1x (vs 6.5x at end March 2020). The majority of its portfolio was valued based on LTM earnings to end May 2020, with forward earnings applied in selected cases where HGT expected results for the full fiscal year to be lower.

A total of £51.0m in cash was returned to HGT in H120 from realisations at an uplift to book value and refinancings (primarily the opportunistic sale of part of its Visma co-investment). Meanwhile, £169.5m was deployed into well-known companies (most notably Argus, P&I, Visma and Intelerad) and HGT intends to continue selective investments in 2020 into companies it knows well. Moreover, bolt-on acquisitions and strategic M&A remain a key focus area within its existing portfolio and several of HGT's holdings have already signed new transactions in 2020 (MediFox, Access, Visma, Mitratech, Sovos and IT Relation). HGT's new commitments amounted to £755m (to be deployed over four to five years) and were attributable to Hg Saturn 2, Hg Genesis 9 and Hg Mercury 3. Co-investments represented 11% of HGT's NAV at end June 2020 (in line with its 10–15% target).

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