EDISON

Patria Private Equity Trust

H124 NAV TR of 2% amid still muted markets

Investment trusts
Private equity

25 June 2024

Patria Private Equity Trust (PPET) reported a modest 2.0% NAV per share total return in H124 (ending March 2024) as exit activity in private equity markets remained subdued, suggesting continued buyer cautiousness. Meanwhile, PPET's share price total return was a strong 22.9% in H124, with the narrowing discount to NAV assisted by, among other things, PPET's buyback programme (see our March 2024 note for details). Given the trust's current balance sheet headroom, the board targets an annual dividend of 16.8p for FY24, up 5% versus FY23.

Price		**562p**
Market cap		**£864m**
NAV*		**£1,190m**
NAV per share*		776.4p
Discount to NAV		27.6%
Yield		2.9%
Ordinary shares in issue		153.7m
Code/ISIN		APEO/GB0030474687
Primary exchange		LSE
52-week high/low	586.0p	410.5p
NAV high/low	776.4p	740.2p

*As at end-May 2024.

Gearing

Net gearing at end-May 2024 10.0%

Fund objective

Patria Private Equity Trust's investment objective is to achieve long-term total returns through holding a diversified portfolio of private equity funds and direct investments into private companies alongside private equity managers (co-investments), a majority of which will have a European focus.

Bull points

- Focus on strong relationships with top-performing European private equity managers.
- High exposure to less cyclical sectors.
- Increasing share of co-investments that offer greater control over capital deployment and are not subject to second-layer fees.

Bear points

- Macroeconomic uncertainty and lower debt availability are curbing global M&A volumes (and in turn private equity exit activity).
- Interest rate normalisation may reduce prospective private equity returns, put pressure on interest coverage and/or lead to refinancing issues across private equity-backed companies.
- Persistent muted private equity exit activity would make PPET reliant on further credit facility drawdowns and/or secondary sales to fund net capital calls.

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Portfolio earnings momentum remains supportive

PPET's portfolio valuations increased by 4.4% on a constant currency basis in H124, partially offset by 1.9% FX headwinds from sterling strength and PPET's ongoing charges (1.06% annualised). Portfolio values were assisted by a solid 12 months of top-line and EBITDA growth across its top 50 holdings (making up 38.2% of portfolio value) of 12.4% and 22.4%, respectively. This is likely to have been partly offset by lower EBITDA multiples across PPET's larger underlying companies, with the median multiple for the top 30 holdings at 14.9x versus 15.4x at end-September 2023, although in part it could be due to different constituents. PPET's direct investment portfolio (22% of the trust's portfolio value) continues to perform well, with an 8.9% fair value increase excluding FX in H124. Importantly, PPET is realising its investments at an uplift to the carrying value two quarters prior, which in H124 stood at a healthy 27.3% and implied a robust 2.3x average realised multiple of cost.

Fund drawdowns declining year on year

While distributions received by PPET from its fund investments remained moderate at £61.0m (c 5% of opening portfolio NAV) in H124, they outpaced fund drawdowns of £57.1m, indicating more balanced cash flows from PPET's primary investments (though during the six months to May 2024, fund drawdowns of £81.6m outpaced distributions of £53.8m). Further drawdowns of £27.7m in H124 were related to the trust's secondary and direct investments, which are at the full discretion of PPET's manager. Meanwhile, the trust made £108.2m in new commitments in H124 (vs £140.8m in H123) across primary investments, new and follow-on direct investments, and one secondary investment.

Liquidity provides further runway until exits pick up

The trust's end-May 2024 liquidity consisted of £13.2m cash balances and £168.2m of undrawn credit facility (a c 44% utilisation rate vs 34% at end-September 2023), which translated into a 35% overcommitment ratio (close to the lower end of the 30–75% target range). We note that vintages of four years or more made up 50% of PPET's end-March 2024 portfolio, indicating a good pipeline of exit candidates. Moreover, PPET's manager expects some realisations from its direct portfolio over the next 12–24 months, which would allow PPET to partly pay down its credit facility. Finally, the manager is considering opportunistic secondary sales of its older (2017 or earlier), 'less-core' vintages given the benign secondary pricing environment, with secondary discounts to NAV of 10–15% on average, and even closer to NAV for some of the higher-quality assets.

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