Results analysis: Edinburgh Investment Trust

Companies across EDIN's portfolio have been driving returns...

Update
20 November 2024

- **Edinburgh Investment Trust (EDIN) has released its half-year results for the six months to September 2024, reporting NAV total returns of 8.3% and a share price total return of 10.8%, outperforming the FTSE All-Share Index return of 6.1%.**

- **Outperformance was attributed to robust stock selection across the portfolio, with key drivers of returns including NatWest and Tesco, which benefitted from improved consumer and interest rate dynamics, as well as Baltic Classifieds, which delivered strong annual results.**

- **The board declared a first interim dividend of 6.90p per share, up 3.0% from the previous year's 6.70p. The portfolio's underlying revenue also increased, climbing 13.3% from 11.54p to 13.08p.**

- **Net income at the end of the period was £19.6m, an improvement from the same period last year. However, the board expects dividends paid to shareholders to modestly exceed this level of income, resulting in a slight reduction in reserves. As of the period end, revenue reserves stood at c. £45.3m, accounting for approximately 95% of last year's dividend.**

- **The trust maintained its existing gearing facilities, of £120m, which average 23 years to maturity at a fixed blended cost of 2.4% per annum, attractive given current interest rate levels.**

- **EDIN traded at a 10.9% discount by the period end, prompting the board to repurchase 2% of shares to help manage the volatility of the discount. Additionally, the board has undertaken marketing initiatives to raise the profile of the management team and their strong performance to help further "crack the discount nut".**

- **Chair Elisabeth Stheeman commented, "With Imran and Emily's feet firmly under their Edinburgh Investment Trust desks, and with investment returns remaining among the best in the Company's sector, we believe we are building on the Company's reputation as a 'core' equity investment for savers in the UK and beyond".**

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Kepler View

Imran Sattar, the lead manager of **Edinburgh Investment Trust (EDIN)**, truly believes in the total return philosophy, focussing unashamedly on building a well-diversified portfolio that balances growth, value, and recovery stocks that can deliver a combination of capital and income growth over time. This strategy has helped deliver strong relative performance over the latest reporting period, the first of interim results of his tenure, with EDIN's NAV and share price rising 8.3% and 10.8%, respectively, outperforming the FTSE All-Share Index's 6.1% return.

We think the outperformance is noteworthy given the current landscape marked by challenges such as geopolitical tensions, polarised political climates and uncertainties around the speed of interest rate cuts, and what stands out is the breadth of contributors. Rather than being driven by a single sector or heavily weighted stock, returns came from across the portfolio. Key performers included Tesco and NatWest, which benefitted from improved consumer and interest rate conditions, alongside cash-generative businesses such as Dunelm and AutoTrader, which delivered strong results and have effectively allocated capital.

Imran has used this success to trim several positions in high-performing stocks like Marks & Spencer, Centrica and BAE Systems, reallocating capital to take advantage of undervalued opportunities elsewhere. Despite the UK market's reputation for housing out-of-favour or downtrodden sectors, Imran views the current undervaluation of many stocks as an opportunity rather than a limitation, recognising the potential for long-term recovery and a chance to unlock long-term value in this overlooked market. This has prompted him to invest in several new high-quality companies with good fundamentals that trade at material discounts, such as Sage, a global leader in accounting software. Sage's recent dip in organic revenue growth has created a valuation opportunity, Imran argues, which could lead to a strong re-rating as the market corrects its mispricing over time. He has also added to key long-term growth holdings, including London Stock Exchange Group, Compass and US-listed Verisk.

UK equities have faced years of investor apathy, with persistent outflows driving valuations to historic lows. However, we think a few key catalysts are emerging. UK companies are leading the way in share buybacks, which, when coupled with strong dividends, are boosting shareholder returns and signalling growing confidence in the UK market's potential. Imran also believes that Chancellor Reeves' inaugural budget, now in the past, means UK consumers can plan their finances with greater certainty, leading to growing consumer confidence. When coupled with easing inflation and a downward trajectory for interest rates, this offers the potential to foster stronger corporate investment.

Against this backdrop, we think EDIN stands out as a compelling option for investors. Imran's focus on quality companies that are well-positioned to deliver strong total returns throughout market cycles, may mean the portfolio can capitalise on a strengthening economy whilst offering resilience during periods of uncertainty. Its well-diversified holdings, many with strong earnings growth potential, also support a robust dividend growth profile, aligning with EDIN's appeal to investors seeking a balance of capital growth, current income, and income growth. Overall, EDIN presents itself as a solid core holding for investors, blending economic recovery potential with defensive qualities in a volatile market. If the strong performance and dividend growth persist, then we see potential for the discount to narrow, providing an additional boost to shareholder returns.

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