Results analysis: Greencoat UK Wind

UKW's quality and resilience are reflected in its relatively narrow discount...

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Analysts:

William Heathcoat Amory
+44 (0)203 384 8795

- **UKW's NAV per share decreased in the six-month period from 164.1p per share on 31 December 2023 to 159.3p per share on 30 June 2024, a fall of 2.9%. This movement reflected lower net cash generation in the period, and a fall in forecast power prices.**

- **Electricity generation for the period was 2,654GWh, 15% below budget owing to low wind and lower availability, principally from an export cable failure at Hornsea 1. Despite lower than budgeted output, net cash generated was £165 million and underlying dividend cover for the period was 1.5x. In the period, UKW reinvested £44 million by buying back its own shares.**

- **In each of the first 10 years since listing, UKW increased its dividend target by RPI and for 2024, the 11th year, the trust increased its target significantly above RPI to 10p per share. UKW paid an underlying 2.5p per share with respect to Q1 2024 and has declared a dividend of the same amount per share with respect to Q2 2024, giving a total of 5p per share for the period.**

- **In the first half, UKW bought back a further £44m of shares at an average cost of 140p per share and at an average discount to NAV of 14.2%. As of 30 June 2024, the company has bought back a total of £53m of shares under the £100m programme announced in October 2023.**

- **The board state that they will continue to maintain a strictly disciplined approach to acquisitions, only investing when it is considered to be in the interests of shareholders to do so. The board and the investment manager continue to actively explore selective disposals. Divestment proceeds would generally be expected to be used to repay the revolving credit facility. Gearing as at 30 June 2024 was 39% of GAV, with a weighted cost of debt of 4.63%. The refinancing process of both the revolving credit facility and selected term debt tranches is at an advanced stage and will conclude earlier than the first maturity date, with "significant appetite to lend" amongst lenders.**

- **The manager states that further sources of responsive demand are expected to materialise in the coming five years including, for example, an expansion of capacity to power data centre demand as the use of AI increases. These sources of demand present further opportunities for the company to enter long term power price agreements in due course.**

- **Lucinda Riches, chairman said: "There should continue to be further opportunities for investments that are beneficial to shareholders in the medium and long term".**

Kepler View

Greencoat UK Wind (UKW) has investments in a diversified portfolio of 49 operating UK wind farms with net generating capacity totalling 2,007MW. With a new UK government having increased the goal of wind farm build out by an additional £100bn, as the 5th biggest renewable generator in the UK (the top four being utilities) UKW should be well placed to help deliver this. UKW is therefore more relevant than ever, with a significant societal benefit of its investments' allowing developers to recycle capital, as well as being a generator of strong investment returns.

The Schroders Greencoat team continues to move forward several key initiatives to optimise the performance of the trust's assets, creating long term value for shareholders. Initiatives include, for instance, lease extensions, turbine performance upgrades, and revenue and operating cost optimisation. We understand that together these initiatives have, since 2016, added approximately £138m to NAV.

Adding back the dividend, UKW's NAV total return for the interim period to 30 June 2024 was + 0.7%. That the lower electricity generation and the failure of the Hornsea 1 cable resulted in a dividend cover of 1.5x, is in our view testament to the resilience built into UKW's investment model. We understand that if Hornsea 1 had been fully operational, dividend cover would have been in the order of 1.7x. UKW provide an illustrative table which shows that the fixed revenue base translates into a dividend cover that is robust in the face of extreme downside power price sensitivities. The power price scenarios below can be seen in the context of realised power prices during the interim period which were £56.8/MWh on average.

Illustrative Dividend Cover

	2025	2026	2027	2028	2029
RPI increase (%)	3.5	3.5	3.5	3.5	3.5
Dividend (pence/share)	10.35	10.71	11.09	11.48	11.88
Dividend cover (x)					
Base case	1.9	2.0	2.0	2.1	2.2
£50/MWh	1.7	1.7	1.7	1.8	1.7
£40/MWh	1.5	1.6	1.5	1.6	1.5
£30/MWh	1.4	1.4	1.3	1.3	1.2
£20/MWh	1.2	1.2	1.1	1.1	1.0
£10/MWh	1.1	1.0	0.9	0.9	0.8

Source: Schroders Greencoat. All numbers illustrative. Power prices real 2023, pre PPA discounts.

With the levered portfolio prospective total return standing at 10% post fees at NAV, UKW continues to look attractive in a risk adjusted basis against many other investment opportunities. At the time of writing, the discount to NAV has narrowed from the widest point, is significantly narrower than peers reflecting in our view the quality of the portfolio. With potential disposals and debt refinancing announcements expected, UKW should benefit from positive newsflow short term, and over the longer term the increased opportunity presented by the new UK government.

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