The REIFs' Fundraising Record

Investors' appetite endures

By Nigel Hawkins

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By Nigel Hawkins, Hardman & Co Infrastructure and Renewables Specialist

Executive summary

- Undoubtedly, renewable energy is a growth sector, albeit one where public subsidies are pivotal. Approximately 40% of UK electricity demand is now met by renewable energy, a figure that is set to rise further as coal-fired stations are decommissioned and nuclear power capacity, despite the Hinkley Point C project, falls.

- Of the privatised electricity companies, SSE, by some way, is the key renewables player: it owns more than 3.8GW of renewables generation capacity. However, there are now 19 quoted Renewable Energy Investment Funds (REIFs), many of which generate electricity from wind or solar.

- Despite the challenges, as well as the uncertainties, caused by the COVID-19 pandemic, these 19 REIFs have raised more than £3.5bn since January 2020. Most of these funds have been deployed in either building new plant or buying existing capacity.

- While most REIFs have experienced few problems in raising funds once they are quoted and have established a track record, some of the more recent IPO fundraising targets – in some cases, being decidedly ambitious – were not met; consequently, fundraising expectations had to be cut back.

- With relatively secure revenues, these 19 REIFs have proven to be resilient investments of late, despite lower long-term energy price forecasts. Currently, the sector is trading at an average premium to NAV, although these premia vary quite markedly between individual funds – TRIG's premium is currently ca.13%, while NextEnergy Solar's is minimal. The sector's prospective dividend yield is ca.5%.

- The two most valuable REIFS are TRIG and Greencoat UK Wind, valued at £2.7bn and £2.5bn, respectively. While their strategies vary noticeably – the former is expanding into mainland Europe, while the latter is very focused on the UK – their revenues and dividend payment capacity are highly dependent on wind-power generation.

- Interest of late has focused specifically on the energy storage REIFs, Gore Street and Gresham House. This duo has undertaken seven separate fundraisings – of varying size – in the past 18 months in order to finance the buildout of their planned capacity. Other REIFs are eyeing up the energy storage sector, and especially the battery element of it.

- Outside the REIF sector, the quoted investment infrastructure funds have also been resilient performers. In July 2021, sector leader, HICL, despite some COVID-19-related setbacks, raised gross proceeds of £120m, at a discount to its market price of ca.2%. BBGI* did likewise and, although its £75m raise was lower, the achieved discount was similarly low.

Background

In recent years, funding for the growth of renewable energy has become ever more important. Initially, in the 1990s, following the privatisation of most of the UK's electricity supply industry, the privatised companies were at the forefront of the relatively modest investment in renewable generation.

SSE still UK's key renewables player

Of the remaining UK quoted electricity stocks, only SSE undertakes very substantial investment in renewable energy: its renewables generation capacity, mainly wind power and hydropower, now exceeds 3.8GW. Drax Group, which eventually emerged out of the privatised National Power, is the key player – and, by far the largest recipient of subsidies – in the UK biomass sector, with its controversial importing of wood chips from the US to fuel its UK units, which have been mostly converted from coal-firing to biomass-firing.

While other international utility groupings, most notably Spain's Iberdrola and Germany's E.ON, also own a portfolio of UK renewable energy plants, much of the recent investment has been undertaken by the 19 REIFs, all of which are quoted.

Seven renewable technologies

While there are arguably seven renewable generation technologies – this categorisation excludes nuclear power – it is wind power and, more latterly, solar power that have driven UK renewable generation investment.

19 REIFs valued at £11.9bn

Most of the 19 REIFs, which are now worth a combined £11.9bn, have focused on wind and solar generation. More recently, energy storage, using battery technology, has come to the fore – this latter sector, though still very small, is certainly attracting investor interest.

TRIG vs. Greencoat UK Wind

The two most valuable REIFs – with somewhat different investment strategies – are TRIG and Greencoat UK Wind. The former has diversified into both mainland Europe, notably into the Nordic countries, but also into other generation technologies beyond wind. Meanwhile, the latter – as implied by its eponymous name – is almost exclusively invested in UK wind generation.

Looking forward, it is probable that more renewable energy funds will become publicly quoted and that the number of REIFs, currently 19, will increase markedly. The 19, in recent years, have found it relatively straightforward to access funds, although the availability of generous public subsidies, which, in time, will erode, has been a pivotal factor. In some cases, over-ambitious IPO targets have had to be scaled back in the face of investor doubts.

Fundraising

The 19 REIFs regularly access the capital markets for additional funds. Some are well established, while others are newcomers. Into this latter category are Aquila Energy Efficiency, HydrogenOne Capital Growth and Victory Hill GSEO.

Over £3.5bn raised since January 2020

Since January 2020, we have calculated that more than £3.5bn of additional equity has been raised by the 19 REIFs. Some of the new money has been raised during the IPO process. However, the majority of the proceeds have been secured by the larger funds, generally to finance plant acquisitions, in either the wind generation or solar generation sectors; invariably, such funds have built up a good track record.

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The energy storage sub-sector

There are some exceptions to the apparent focus on wind and solar investment, namely the two energy storage funds, Gore Street and Gresham House. SEEIT, too, is an exception, in that its strategy is decidedly idiosyncratic compared with the other 18 members of its peer group.

Almost all fundraises have been at >100p per share

The table below lists the key details of the more than £3.5bn of new equity raised by the 19 REIFs since January 2020. It shows both the gross proceeds raised, along with the strike price; in the latter case, it is noticeable that virtually every fundraise was based on a premium to the 100p launch price, which – in respect of some established players – is to be expected. In US Solar's case, the strike price was $1.00 per share, equivalent - in May 2021 - to 72.1p per share.

REIFs

REIF	Date	New shares (m)	Price (p)	Gross proceeds (£m)
Aquila Energy Efficiency	May'21	100.0	100	100
Aquila European Renewables	Oct'20	122.9	104	110
	Mar'20	38.1	105	40
Bluefield Solar	Jul'21	89.1	118	105
	Nov'20	36.5	124	45
Downing Renewables and Infrastructure	Dec'20	122.5	100	123
Ecofin US Renewables	Dec'20	125.0	100	125
Foresight Solar	n/a	n/a	n/a	0
Gore Street Energy Storage	Apr'21	132.0	102	135
	Dec'20	60.0	100	60
	Jul'20	24.6	96	24
	Feb'20	3.6	96	3
Greencoat Renewables	Dec'20	110.6	113	108
Greencoat UK Wind	Feb'21	150.9	131	198
	Sep'20	305.3	131	400
Gresham House Energy Storage	Jul'21	89.3	112	100
	Nov'20	114.3	105	120
	Feb'20	30.0	104	31
HydrogenOne Capital Growth	Jul'21	107.4	100	107
JLEN	Feb'20	49.7	115	57
NextEnergy Solar	n/a	n/a	n/a	0
Octopus Renewables	Jun'21	144.9	104	150
SEEIT	Feb'21	150.9	106	160
	Oct'20	100.0	105	105
	Jun'20	105.8	104	110
TRIG	Mar'21	195.0	123	240
	Nov'20	160.0	125	200
	May'20	100.0	120	120
Triple Point Energy Efficiency	Oct'20	100.0	100	100
US SOLAR	May'21	132.0	72*	96
Victory Hill GESO	Feb'21	242.6	100	243
				3,515

**equivalent to $1.00 per share in May 2021*
Source: Hardman and Co Research

Very modest discounts

Aside from the funds raised within the REIF sector, especially during the era of the COVID-19 pandemic, it is also noticeable that these transactions have been undertaken at a modest discount to the prevailing share price. Disregarding some of the over-ambitious fundraising targets of new issue sponsors, the older, established REIFs have faced few problems in raising additional funds to finance acquisitions, generally new wind or solar plants.

Two recent fundraising initiatives by TRIG and Greencoat UK Wind – the REIF sector's most valuable funds – illustrate this point.

TRIG's £240m (gross) fundraise

In March 2021, TRIG issued 195m shares at 123p per share, raising gross proceeds of £240m. Just prior to the announcement, the shares had been trading within the 120p to 125p range; they are now slightly higher. Impressively, this was TRIG's third major fundraise within 10 months. The proceeds from this latest fundraise are to be used to "pay down the recently renewed £500m Revolving Credit Facility (RCF)".

In welcoming this new investment, TRIG stated that its "target was met with gross proceeds of approximately £240m raised".

Greencoat UK Wind's £198m (gross) fundraise

A similar scenario applied in February 2021. Greencoat UK Wind issued 150.9m new shares at 131p per share to raise gross proceeds of £198m. Shortly before the announcement, the shares had been trading in the low 130p range: they are now slightly below that figure. The aim of Greencoat UK Wind's latest issue was also to "repay or reduce borrowings from its RCFs".

In terms of demand for its new shares, Greencoat UK Wind warmly welcomed "another successful and oversubscribed equity capital issue".

Other well-established REIF funds, including Bluefield Solar and SEITT – the latter with three fundraising issues in just eight months – have also tapped the market.

£454m funds for energy storage duo

Importantly, considerable interest is now focusing on the energy storage sector. The two REIFs most involved with energy storage operations, Gore Street and Gresham House, have raised a combined £454m in seven separate transactions in just 18 months.

Outside the immediate REIF sector, a similar scenario has applied to the largest infrastructure investment funds, which have a wider investment remit than the 19 REIFs.

Minimal discounts for HICL…

Sector leader, HICL, whose dividend growth aspirations have stalled of late, raised gross proceeds of £120m in July 2021. This new money was raised at a discount of just 2% to its share price at the time; it has inched upwards subsequently.

…and BBGI*

BBGI*, whose 2021 interim results were published last week, also raised gross proceeds – in its case – of £75m in July 2021. The discount to its then share price was also distinctly modest – at ca.3%.

Capita's desperate £701m rights issue

At the other end of the spectrum – and way beyond the infrastructure investment sector – was Capita's much-needed £701m three-for-two rights issue in 2018. To be sure, Capita faced a raft of serious issues – and still does – so that the funds, which were fully underwritten, were essential to its ongoing operation.

56% rights discount

Prior to confirmation of the 70p per share rights issue price, Capita's shares were trading at almost 160p. Hence, the discount was a formidable 56%. Given that the shares are now trading around the 50p range, it is self-evident that, despite the heavy discount, the rights issue price in 2018 was too high, although Capita's shares may rally, especially if takeover speculation grows.

Current REIF valuation data

REIF prospective yields average ca.5%

The table below shows the current market capitalisations of the 19 REIFs; in total, they amount to £11.9bn. Also included are the latest yields based on our prospective dividend forecasts; it should be noted some of those funds, which undertook an IPO relatively recently, do not plan to pay a dividend this year. The average sector yield is ca.5%.

19 REIFs – financial data

REIF	Share price (p)	Market cap. (£m)	Yield
Aquila Energy Efficiency	96	96	n/a
Aquila European Renewables	92	293	5.6%
Bluefield Solar	123	610	6.5%
Downing Renewables and Infrastructure	100	123	3.0%
Ecofin US Renewables	68	85	n/a
Foresight Solar	101	614	6.9%
Gore Street Energy Storage	113	313	6.2%
Greencoat Renewables	101	746	5.2%
Greencoat UK Wind	129	2,548	5.6%
Gresham House	122	536	5.7%
HydrogenOne Capital Growth	106	113	n/a
JLEN	110	661	6.1%
NextEnergy Solar	99	582	7.2%
Octopus Renewables	109	540	4.6%
SEEIT	118	799	4.8%
TRIG	129	2,713	5.2%
Triple Point Energy Efficiency	107	107	5.1%
US Solar	75	250	5.4%
Victory Hill GESO	102	248	1.0%

Source: Hardman and Co Research
Priced on 25/08/2021

Resilience has been the watchword

Over the past two years, most of which are covered by the COVID-19 crisis, the REIFs have been resilient performers – and certainly compared with some other sectors, including transport, leisure and hospitality. The direct impact of COVID-19 on the 19 REIFs was marginal in relative terms. After all, wind generation output was still broadly in line with expectations, despite a period of low wind levels earlier this year, while solar output was barely affected.

NAVs cut by lower long-term energy forecasts

However, in valuation terms, the NAVs of some REIFs have been adversely affected by lower long-term energy price projections, although – of late – energy prices have rallied.

Trimmed dividend expectations

Nonetheless, weaker energy prices, despite the prevalence of subsidies, have adversely affected many REIFs. Some have responded by trimming their dividend growth expectations.

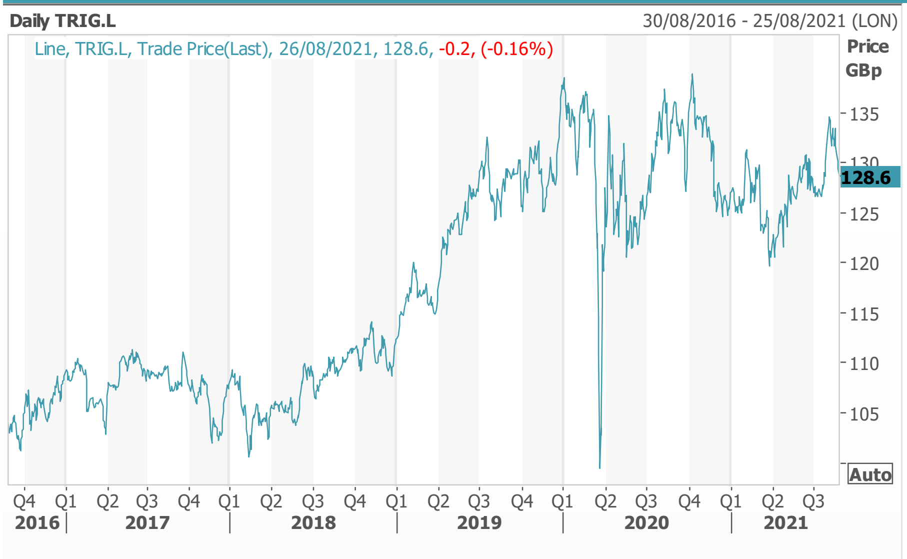
To be sure, dividend growth projections for the sector have been scaled back, although only to a minor extent – and nothing to compare with Centrica's 58% dividend cut in 2019.

The depressing Centrica story

Giving the very testing times over the past two years, the REIFs have proven to be particularly resilient performers. After all, other quoted energy companies, most notably Centrica, on the back of weaker gas prices and other difficult issues, have suffered greatly. Centrica's share price has fallen by 78% in the past five years – a sad commentary on the state of the UK's premier gas company.

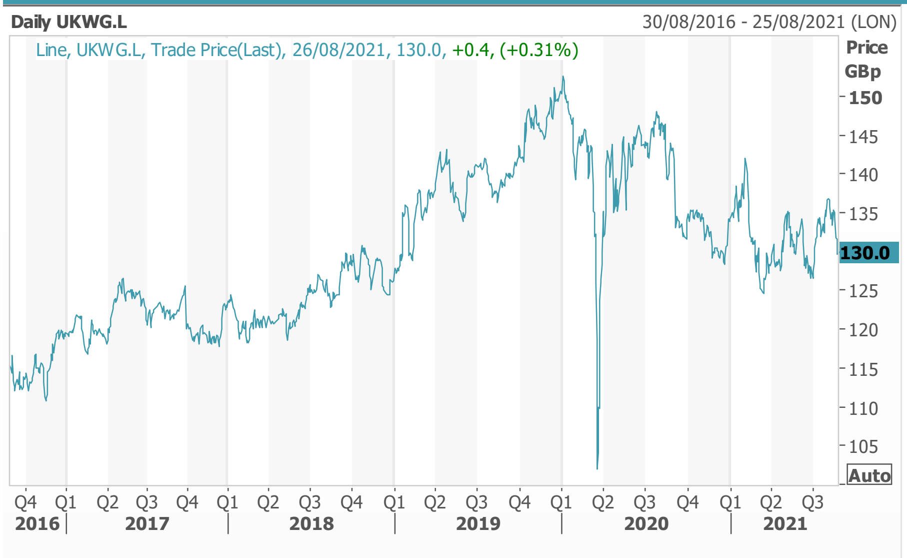
The graphs below show the share price performance of the two sector leaders, Greencoat UK Wind and TRIG, over the past five years; currently, they have a combined market value of £5.2bn.

TRIG – five-year chart



Source: Hardman & Co Research

Greencoat UK Wind – five-year chart



Source: Hardman & Co Research

Conclusion

REIFs well-placed in a go-go sector

Undoubtedly, despite weaker energy prices, the quoted 19 REIFs are well-placed – and are likely to be joined by other funds over the next few years. After all, they operate in a go-go sector, with renewable energy certainly being in vogue.

Eroding subsidies

However, the phasing out of subsidies will put increasing pressure on the finances of many REIFs – and this may lead to more modest dividend growth than expected in the pre-COVID-19 period.

Real appetite to invest in sector persists

Yet, as recent well-supported fundraising issues have demonstrated, there remains a real appetite to invest in the renewable generation sector.

About the author

Nigel Hawkins

Nigel Hawkins is the Infrastructure and Renewables Specialist at Hardman & Co, which he joined in February 2016.

Nigel specialises in the energy sector, with a particular focus on the expanding renewable generation market, in both the UK and overseas, about which he has written several reports assessing the sector's finances. He has been involved in analysing the utilities sector since the 1980s. He covered the privatisation of the water and electricity companies for Hoare Govett between 1989 and 1995. Subsequently, he researched the UK and EU telecoms sector for Williams de Broe. He has also written many feature articles for Utility Week magazine since the mid-1990s.

Between 1984 and 1987, Nigel was the Political Correspondence Secretary to Lady Thatcher at 10 Downing Street. He holds a BA (Hons) in Law, Economics and Politics from the University of Buckingham, and is a senior fellow of the Adam Smith Institute.

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