



HARDMAN & CO.

IICS/REIFS

## NAV DISCOUNTS AND THE ILL WIND FROM DENMARK

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*Please note:*

1. Closing stock prices, as at 28 August 2025, have been used, unless otherwise specified.
2. The exchange rates used are: £ to €1.16; £ to \$1.33.
3. The number of shares in issue for many IICs and REIFs has varied of late due to the numerous share buyback schemes that are being undertaken.

## Executive summary

- ▶ Since the start of 2024, the share prices of the eight Infrastructure Investment Companies (IICs) and of the 18 Renewable Energy Infrastructure Funds (REIFs) have been generally weak – and, conspicuously, have failed to recover the losses of 2023. Undoubtedly, high interest rates have undermined the sector – and there is no certainty that they will fall significantly. Not only has this situation adversely affected NAVs, but the comparison with “risk-free” 10-year gilts is stark – the latter are currently yielding an attractive 4.8%.
- ▶ Sector sentiment has not been helped by the ca.£7bn rights issue announced by the EU’s largest offshore wind operator, Denmark’s Orsted; it has faced serious issues relating to its US operations off New England. Following the rights issue announcement, Orsted’s shares plunged by almost a third, a reaction that has undermined the valuations of many other renewable energy stocks.
- ▶ Over the past six months, there has been significant corporate activity in the sector. British Columbia Investment Management (BICM) acquired BBGI for just over £1bn at a price that was close to BBGI’s latest NAV. Harmony Energy Income has also exited the sector, having been bought by Foresight Group for £210m. Downing Renewables and Infrastructure seems set to follow suit, following a recommended bid of £175m from Bagnall Energy.
- ▶ Less satisfactorily, there are Managed Wind-Downs (MWD). While Triple Point Energy Transition is now delisted, five other MWDs are currently being undertaken. Aquila Energy Efficiency, Aquila European Renewables, Digital 9 Infrastructure, Ecofin US Renewables Infrastructure and VH Global Energy Infrastructure are all intent on selling their assets and on maximising shareholder value on realisation.
- ▶ NAVs of many sector stocks have fluctuated of late and some, notably Digital 9 Infrastructure, have plummeted – from 79.3p per share at December 2023 to just 34.4p per share at December 2024. On the upside, 3i Infrastructure has managed to grow its NAV during 2024/25 – it rose from 362.3p per share to 386.2p. Cordiant Digital Infrastructure has also bucked the trend, with a 9.3% increase in EBITDA in 2024/25 compared with 2023/24.
- ▶ Currently, all 26 stocks – except for Downing Renewables and Infrastructure, the target of a recommended bid – are trading at a significant discount to their NAV. The average IIC is trading at an 18% discount (on an unweighted basis) to its NAV; the comparable discount (also on an unweighted basis) for the REIFs is ca.30% (in both cases, stocks in MWD have been excluded). Not surprisingly, there are now many share buyback schemes under way.
- ▶ For the sector’s two bellwether stocks, the dividend record is fine – 3i Infrastructure is projecting a reassuring 6.3% rise in its dividend per share in 2025/26, while Greencoat UK Wind’s recent dividend record has impressed. For many others, maintaining dividends, in nominal terms, has been a real challenge. In HICL’s case, it has flagged a distinctly modest 1.2% dividend increase for 2025/26, its first such increase since 2018/19.
- ▶ The average prospective dividend yield (on an unweighted basis) for the IICs currently is 6.4%; the comparable figure (also on an unweighted basis) for the REIFs is almost 8% (in both cases, stocks in MND have been excluded). The REIFs yield clearly reflects the sharp decline in recent years of their share prices.

# Infrastructure/Renewable Energy Funds

## Background

### Pre-COVID-19 optimism long gone

Within the now 26-strong Infrastructure Investment Companies (IICs) and Renewable Energy Infrastructure Funds (REIFs) sector, most of the constituents have floated within the past decade, with many IPOs undertaken in the lead-up to COVID-19. Subsequently, however, it has been distinctly quiet on the IPO front, as sector NAVs have fallen back, due mainly to persistent higher interest rates. Instead, many REIFs, in particular, are seeking either to sell themselves, or at least some of their key assets.

Sector fundraising, via the equity markets, has been almost non-existent of late. Instead, for most of the IICs, consolidation has been to the fore – the debt-laden Digital 9 Infrastructure is an exception, as it is in Managed Wind Down (MWD)

### Retrenchment prevails

For most REIFs, retrenchment has been very much the order of the day – not surprisingly, share buybacks have been popular among the leading stocks. Moreover, aside from Hydrogen Capital Growth, which is in Managed Realisation (MR), there are four REIFs in MWD, excluding Triple Point Energy Transition, whose liquidation has now been completed – surprisingly quickly and without serious problems.

This pronounced reversal has seen the optimism of the early 2020s drained from the sector, as the significant premia over NAVs, at which most stocks then traded, converted into heavy discounts. There are exceptions, although even the highly rated 3i Infrastructure is trading at a discount of ca.10% currently.

Whereas, previously, equity markets generally welcomed fundraises, this is no longer the case, with few of the 26 stocks under review seeking – actively at any rate – to raise new funds. In the current climate, very few have a realistic chance of securing substantial new funds from equity markets.

### Share buybacks now all the rage

Instead, under strong institutional shareholder pressure, the focus has moved sharply to share buybacks, which have been undertaken by many of the leading REIFs. With few attractive investment opportunities – at current market valuations – undertaking share buybacks is the obvious safe option.

### Resilient stocks

Even so, the larger IICs – such as 3i Infrastructure, the sector's outlier – continue to prosper, albeit at somewhat lower valuations. Similar comments apply to both Cordiant Digital Infrastructure and Pantheon Infrastructure, both relative newcomers to the sector.

The two largest REIFs – Greencoat UK Wind and TRIG – are also well-placed; especially the former, which is focused, almost entirely, on UK wind generation. TRIG, however, with considerable EU investment, has faced some challenges: its solar load factor in 2024 in GB and France was a paltry 11%.

### Heavy discounts in many cases

The heavy discounts to NAV at which some stocks are trading – notably those applying to Digital 9 Infrastructure and to Hydrogen Capital Growth, at a near 70% discount in each case – sum up the poor market sentiment. Even some REIFs, with decent operating records, find that the market is currently applying discounts of ca.30% on their stock.

Undoubtedly, high interest rates, which may not come down in line with market expectations, and their impact in driving up discount rates, have cut valuations – a

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scenario to which markets have reacted accordingly. There is a widespread belief, often expressed by frustrated IIC/REIF executives, that it is macroeconomic factors that are driving NAV discounts. After all, when the yield on ultra-safe government gilts is above 4.5%, as is the case currently, yields on IICs/REIFs, which have to reflect the various risks to which they are exposed, are driven higher.

### Casualties are mounting

Given this background, sector casualties have been inevitable, mainly brought about by failed Continuation Votes from disenchanted shareholders, which generally lead to the sale of core assets and eventual liquidation.

### Five stocks in MWD currently

Aside from Atrato Onsite Energy, which was taken over at the end of last year by the Brookfield/RAIM joint venture, five sector stocks – Aquila Energy Efficiency, Aquila European Renewables, Digital 9 Infrastructure, Ecofin US Renewables Infrastructure, and VH Global Energy Infrastructure – have entered MWD. To date, only Triple Point Energy Efficiency has completed the MWD process – with surprising ease – and it has subsequently been delisted.

By contrast, SDCL Efficiency Income, which is also planning to sell off surplus assets – for the prime purpose of generating cash – is faced with owning a wide portfolio of assets, many of which are subject to detailed contractual obligations. In fact, SDCL Efficiency Income has managed to sell its United Utilities' renewable energy business at a price that broadly equated to that paid on its acquisition in 2022. However, its intended sale of Onyx has been derailed by the profound uncertainty caused by the US government's planned tariff changes.

### Digital 9 now focusing on Arqiva stake sale

Among the IICs, Digital 9 Infrastructure struggled to sell its core Verne Global business, completion of which was finally confirmed in a pivotal RNS announcement in March 2024. It is now engaged in selling off its remaining assets, effectively its 48% stake in Arqiva, which is faced with many uncertainties in the UK broadcasting market – a poignant end to the dreams that its founders cherished when undertaking Digital 9 Infrastructure's IPO in March 2021 and subsequently raising more than £900m of equity funds.

### Continuation Votes abound – most recently at Gore Street

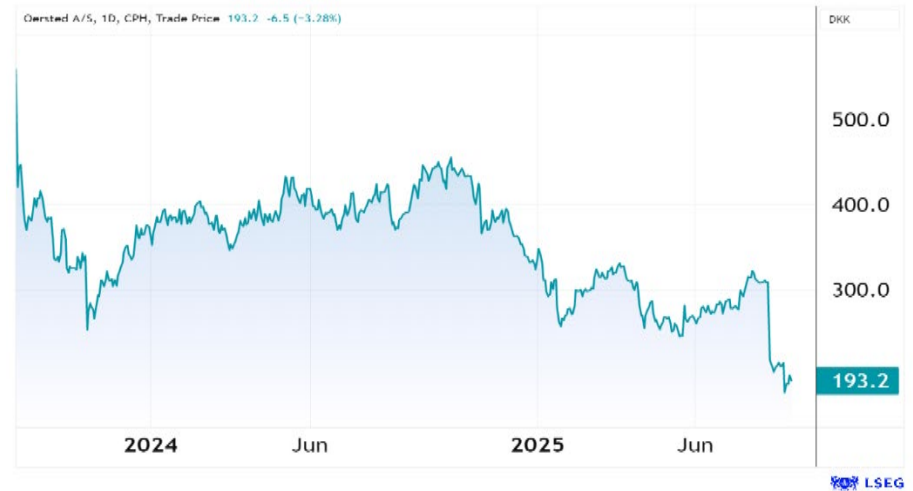
Gore Street Energy Storage recently faced down a Continuation Vote, but other similar initiatives are expected in the sector. It should be noted that, even Greencoat UK Wind, the REIF sector bellwether, faced a Continuation Vote at its AGM in April 2024, with only 11% of its shareholders voting against the motion. For those REIFs, with larger share price discounts to NAV, the number of dissentients may be markedly higher.

### Orsted's shocker plunged its shares by almost a third

Among the larger renewable energy players, shares in Orsted, the EU's leading renewable energy business, were rocked by its ca.£7bn right issues announcement – way ahead of market expectations. The US government ordered work to be stopped on the Revolution Wind plant, which was 80% complete. The damage to Orsted's share price is highlighted below.



## Orsted Infrastructure: one-month share price performance (August 2025)



Source: LSEG, 2025

## Recent sector share price performance

In general, the well-established IICs, boosted by the BBGI takeover, have fared rather better than most REIFs over the past year. Many IICs have seen a steady and resilient performance – Digital 9 Infrastructure being an obvious exception. Most REIFs, though, have had a disappointing year, apart from the two – Downing Renewables and Infrastructure and Harmony Energy Income – that have been the subject of agreed bids at close to their NAV figure.

### Interest rate cuts are key

In its impact on the sector's share price ratings, the current UK interest rate environment has been a pivotal factor, with investors eagerly awaiting further cuts in interest rates, which – although widely expected – are far from guaranteed. The Bank of England needs to be convinced that inflation really has been tamed, and that it can track the prescribed 2% annual increase, which has proved very elusive in recent years: the rise in July 2025's inflation figure to 3.8% is not encouraging in this respect.

### Three sector deals in 1H'25

More specifically, three corporate deals have helped to underpin valuations, demonstrating that value still lies in the sector:

- ▶ **BBGI:** As a quoted IIC, BBGI performed very well – at one time, in 2021, its share price was trading at a premium of more than 25% to its NAV. Almost inevitably, this premium was converted into an NAV discount as sector ratings fell back sharply. BBGI has been acquired by British Columbian Investment Corporation (BCIM), a Canadian-based company, at a price of 147.5p per share (including a dividend), which was close to its latest NAV. The successful bid just exceeded £1bn.
- ▶ **Downing Renewables and Infrastructure:** Having grown its renewables business successfully, most notably via its hydro-power portfolio in Sweden, Downing Renewables and Infrastructure has now recommended a bid from Bagnall Energy, with which it has previous involvement; the latter was a major shareholder. The bid value is just short of £175m, equivalent to 102.6p per share.
- ▶ **Harmony Energy Income:** Following the completion of its battery storage build-out programme, Harmony Energy Income has accepted a bid by two funds

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wholly controlled by Foresight Group, currently capitalised at £530m: Drax Group was the underbidder. The deal, worth £210m at 92.4p per share, has been completed, with shares in Harmony Energy Income subsequently delisted.

### The sector's habitual outlier

Irrespective of corporate activity, 3i Infrastructure, the sector's habitual outlier, has seen its shares rise modestly in the past year, but significantly during July. The graph, below, highlights its resilient, if unexciting, performance in the past 12 months.

#### 3i Infrastructure: one-year share price performance



Source: LSEG, 2025

### The Digital 9 plunge

Within the sector, the most precipitous share price decline over the past year – by more than 50% – has been that of Digital 9 Infrastructure. Unquestionably, having raised more than £900m of new equity in a short period of time, it expanded far too quickly before being forced to sell off its prime asset, Verne Global – a deal that was eventually closed in March 2024. Most of its much-reduced value lies with its 48% stake in Argiva, which was written down again in the 2024 full-year accounts from £328m to £215m (net of the Vendor Loan Note and a provision for the Bilsdale facility). Realising that value will be challenging.

Digital 9 Infrastructure's one-year share price graph, below, highlights its rather unedifying struggles as it negotiates MWD.

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### Digital 9 Infrastructure: one-year share price performance



Source: LSEG, 2025

#### Impact of Gresham's profit warning in February 2024 recedes

Within the BESS subsector, the dramatic profit warning in February 2024 from Gresham House Energy Storage – due, primarily, to revenue shortfalls – saw its share price plunge. Some months later, the shares rallied strongly. And, in recent weeks, they have been solid on the back of the “long-term floor agreements” now covering 939MW of its 1,072MW capacity – equivalent to 88%; effectively, these contracts underpin much of its future revenues. Over the past year, Gresham House Energy Storage’s share price has fluctuated but is above its figure in July 2024.

#### Harmony Energy Income exits

The other GB-based BESS, Harmony Energy Income, has also seen its share price rise appreciably – and not surprisingly – following its agreed acquisition by Foresight Group.

#### Rare good news for the sector

One-year share price graphs covering both these stocks – the source of scarce good news for disappointed sector investors over the past year – are reproduced, below: the now delisted Harmony Energy Income’s shares rose sharply on the day of the announcement of the bid by Foresight Group.



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### Gresham House Energy Storage: one-year share price performance



Source: LSEG, 2025

### Harmony Energy Income: one-year share price performance



Source: LSEG, 2025

## NAVs

Virtually all stocks trading at a discount to NAV – some sharply so

The ongoing absence of further material interest rate cuts – and even the possibility of higher interest rates – have affected NAVs adversely. In the past, many IICs and REIFs traded at a premium to their NAVs. For much of 2021, for example, the recently delisted BBGI's premium exceeded 20%. Now, virtually all sector stocks are trading at substantial discounts.

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### Some modest NAV increases

In some cases, recently released details of NAV data show a modest reduction for most stocks. There have been some resilient performances among the IICs, however, with 3i Infrastructure increasing its NAV at March 2025 to 386.2p, compared with 362.3p per share at March 2024 and just 336.2p per share at March 2023. Nevertheless, this NAV profile is unusual in the sector, where reduced NAVs have been reported.

Overall, the general trend has been down, with various factors being cited; most notably, the adverse impact on valuation of a higher discount rate. Indeed, there have been some sharp increases in discount rates, notably from INPP, up from 8.4% at December 2023 to 9.0% at December 2024. Octopus Renewables Infrastructure has increased its discount rate by 0.6% in just three months – from 7.0% at December 2024 to 7.6% at March 2025.

### Digital and Ecofin US Renewables suffer from the same “double whammy”

The stricken Digital 9 Infrastructure has also recorded both a pronounced fall in its NAV – from 79.3p per share at December 2023 to 34.4p per share at December 2024 – and an interrelated increase in its discount rate, which is now 14%. Given the MWD-driven Arqiva sale, however, this latter figure is somewhat academic.

### The plight of Ecofin US Renewables

Similar comments apply to Ecofin US Renewables, which is also in MWD. Its NAV, on a \$ basis, fell by 47% between December 2023 and December 2024, while its discount rate moved upwards by 1% during that period.

Moreover, in the case of the REIFs, energy price changes have been a key factor as many material valuation adjustments have been made to reflect recent energy price movements.

### Updated NAV trading discounts

The table, below, shows the latest reported NAV data. Virtually all stocks under review are currently trading at a discount to their NAV; furthermore, some sector constituents are now trading at a discount of more than 40%.

## IICS/REIFS – NAV discounts and the ill wind from Denmark

### Current market ratings of UK IICs

IIC	Share price (p)	Shares in issue (m)	Market cap (£m)	Year-end	NAV per share (p)	Premium vs. discount	Prosp. dividend (p)	Prosp. yield (%)
3i Infrastructure	343	922	3,164	Mar	386.2	-11.2	13.45	3.9
Cordiant Digital Infrastructure	98	766	751	Mar	129.6	-24.4	4.35	4.4
Digital 9 Infrastructure	10	865	87	Dec	34.4	-70.9	0.00	0.0
GCP Infrastructure	73	839	612	Sep	102.1	-28.5	7.00	9.6
HICL	120	1,942	2,330	Mar	153.1	-21.6	8.35	7.0
INPP	120	1,840	2,208	Dec	144.7	-17.1	8.58	7.2
Pantheon Infrastructure	102	469	478	Dec	115.2	-11.5	4.40	4.3
Sequoia Economic Infrastructure	79	1,540	1,217	Mar	91.8	-13.9	6.88	8.7
			<b>10,847</b>			-28.4		

Source: Hardman & Co Research

### Current market ratings of UK REIFs

REIF	Share price (p)	Shares in issue (m)	Market cap (£m)	Year-end	NAV per share (p)	Premium vs. discount	Prosp. dividend (p)	Prosp. yield (%)
Aquila Energy Efficiency	32	81	26	Dec	85.6	-62.6	n/a	n/a
Aquila European Renewables	36	378	137	Dec	62.8	-42.5	2.72	7.5
Bluefield Solar	89	592	527	Jun	117.8	-24.4	8.90	10.0
Downing Renewables and Infrastructure	102	170	173	Dec	112.4	-9.3	1.49	1.5
Ecofin US Renewables Infrastructure	18	138	25	Dec	33.1	-45.6	0.00	0.0
Foresight Environmental Infrastructure	79	629	497	Mar	104.6	-24.5	7.96	10.1
Foresight Solar	82	554	454	Dec	108.5	-24.4	8.10	9.9
Gore Street Energy Storage	67	505	338	Mar	102.8	-34.8	7.00	10.4
Greencoat Renewables (ex €)	63	1,113	699	Dec	86.9	-27.8	5.86	9.3
Greencoat UK Wind	121	2,200	2,662	Dec	143.4	-15.6	10.35	8.6
Gresham House Energy Storage	78	569	444	Dec	109.4	-28.7	0.00	0.0
Hydrogen Capital Growth	25	128	32	Dec	89.3	-72.0	0.00	0.0
NextEnergy Solar	68	575	391	Mar	91.7	-25.8	8.43	12.4
Octopus Renewables Infrastructure	69	536	370	Dec	99.5	-30.7	6.17	8.9
SDCL Efficiency Income	58	1,090	632	Mar	90.6	-36.0	6.36	11.0
TRIG	77	2,400	1,848	Dec	108.2	-28.8	7.55	9.8
US Solar	29	308	89	Dec	47.4	-39.1	2.12	7.3
VH Global Energy Infrastructure	70	422	295	Dec	103.3	-32.2	5.80	8.3
			<b>9,639</b>					

Source: Hardman & Co Research

## Dividends

### Dividends are stretched

Despite the relative lack of growth in their NAVs, especially for many REIFs, dividend payments – at least in nominal terms – remain robust, albeit with some noticeable exceptions.

### Ongoing dividend streams

Clearly, the five stocks in MWD have other agendas in terms of dividend payments. In some cases – notably with Aquila Energy Efficiency – very different dividend policies are being pursued, dependent primarily upon the sale of core assets. Consequently, for the five stocks in MWD, unless otherwise indicated, we have assumed no ongoing stream of dividends; instead, it is likely that there will be a series of one-off payments arising from sales proceeds.

### Dividend cover is now a more important metric

Increasingly, the focus is on dividend affordability, so that dividend cover announcements have become more prominent as funds seek to reassure investors that dividend cuts – at least in nominal terms – are not on the agenda.

### 3i Infrastructure tops the list – again

In terms of the IICs, the most impressive dividend payer remains 3i Infrastructure, which is projecting a 13.45p dividend per share for 2025/26, an impressive 6.3% per share increase over its 2024/25 payment. Aside from Digital 9 Infrastructure, which is in MWD, most of the other members of the IIC subgroup are forecasting higher dividends in nominal terms. The exception is GCP Infrastructure, whose dividend payment seems destined to remain at 7p per share for the foreseeable future.

### At last, HICL's dividend set to rise

Importantly, HICL is forecasting a higher dividend of 8.35p per share in 2025/26, after seven years of its dividend seemingly marooned – like a government gilt – at 8.25p per share since 2018/19. Dividend cover, though, remains tight at an underlying 1.07x.

### Greencoat UK Wind's RPI-related dividend uplift

Within the REIFs, Greencoat UK Wind's dividend payments have comfortably outdistanced its peers. Impressively, it even retained its RPI-related dividend policy, despite the surge in UK inflation, during the post-COVID 19 period. Greencoat UK Wind has reaffirmed its ongoing dividend policy, whereby its dividend per share rises "in line with RPI inflation". This could be an expensive pledge if inflation, which increased in July 2025 to 3.8%, takes off once again.

### Dividend cuts in sector have been few

Excluding Hydrogen Capital Growth, which does not pay dividends, and some funds currently in MWD, there are several funds, like GCP Infrastructure, which are unable – for varying reasons but primarily low dividend cover – to raise their dividends. Dividend cuts, though, have been relatively few.

While Harmony Energy Income is now delisted, the other two BESS stocks have very different dividend policies, caused partly by the volatility of their share prices over the past 18 months.

### Gresham's revival

In the case of Gresham House Energy Storage's revenue shortfalls, which brought about its shock profit warning in February 2024 and its subsequent passing of dividend payments, the recovery of its share price rating, driven by the recently confirmed "long-term floor agreements" now covering 939MW of its capacity, has meant a likely return to dividend payments. Following the suspension of its dividend payments last year, it is expected that dividends will be reinstated within the coming months.

### Gore's sale of ITC's credits in the US will boost its dividend

The other listed BESS stock, Gore Street Energy Storage, operates mainly on the island of Ireland and was less affected by the BESS revenue issues in GB. Even so, its finances have been driven by its two key plants in Northern Ireland. More recently, its overseas activities have been prominent, especially via its Big Rock project in the US.

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### Gore survives Continuation Vote

Gore Street Energy Storage has now sold its Investment Tax Credits (ITCs) for both the Big Rock project, as well as for its Dogfish project, which is also in the US; funds for the latter have been received already. As such, its dividend payments for 2025/26 will be boosted, although there remains some doubt about the timing element. Crucially, though, Gore Street Energy Storage survived the recent Continuation Vote.

### Both US stocks struggle

The two US-based REIF stocks have fared badly, partly due to the lower priority being given by the current US administration to developing renewable generation: fossil fuels are currently more in favour there.

Ecofin US Renewables is now in MWD; its share price has halved over the past year. In 2Q'23, Ecofin US Renewables also halved its quarterly payment per share, following tornado-related damage to a nearby electricity substation in Texas, which its key 60MW Whirlwind windfarm uses to transmit its generated output. This reduced dividend was replicated in 3Q'23 and 4Q'23. More recently, managing its MWD has been the priority.

US Solar, too, has undertaken various initiatives as it seeks to release value for its discontented shareholders; its latest 2025 full-year dividend forecast is **\$2.86** per share.

### Prospective yields – 6.4% for IICs and ca.8.0% for REIFs

After various adjustments to exclude funds in MWD, prospective dividend yields, on an unweighted basis, for the IIC subsector currently average 6.4%. The comparable figure for the REIFs, also on an unweighted basis and excluding MWD funds, is now ca.8%.

## 10-year gilts

### 10-year gilt yield at 4.8%

When assessing IIC/REIF sector yields, they should be compared with those currently available on 10-year “risk-free” gilts, which have risen sharply since 2021 on the back of higher interest rates. The current yield on these gilts is now ca.4.8%.

### UK RPI-based inflation now at 3.8%

As such, the cost of funding the vast £2.8tr public sector net debt has risen appreciably; the inability to cut the welfare budget, illustrated by the restoration of Winter Fuel payments for many well-to-do householders, is also a key factor. Indeed, the next major move in interest rates could be upwards, as the July inflation rise to 3.8% suggested.

The graph, below, published by the *Financial Times*, sets out how the pivotal 10-year gilt yield has increased in recent years, after a lengthy period of very low yields, when interest rates were far lower.



Source: FT.com

## Politics

### Labour's crushing win in 2024

In July 2024, the UK General Election yielded a massive Labour Party majority, which overturned the substantial Conservative Party majority achieved in 2019. The former won no less than 411 seats, compared with 209 seats in the 2019 General Election. The disastrous Conservative Party performance saw its 365 seats in 2019 reduced to just 121 seats in 2024; its subsequent performance has been dire, with the Reform Party now well ahead in most opinion polls.

The key issues for the 26 stocks under review, in terms of political changes, are:

- ▶ The priority accorded to renewable energy generation in the controversial quest to achieve net zero by 2030 – a key Labour Party policy. The new Hinkley Point C nuclear plant should have been commissioned by 2031, but a very sharp increase in renewable generation is required if the Labour government is to meet its highly ambitious net zero target. Offshore wind generation, for which a new auction will be held shortly, seems set to be a major contributor.
- ▶ Given the turbulent times in the offshore wind sector – and the issues confronting Orsted in particular – the outcome of the auction is expected to see some major price increases. A strike price of well above £100 per MW is anticipated; this compares with winning bids of sub £40 per MW as recently as 2022.
- ▶ The impact of the new publicly owned Great British Energy, which appears destined to become more closely associated with the Crown Estate; the latter owns vast swathes of coastal land and foreshore. The overall aim would be to stimulate offshore wind generation investment, a sector where the UK is already a world leader but also one where costs have risen substantially over the past three years.
- ▶ Major planning changes are being introduced, particularly to facilitate the building of more houses – 300,000 p.a. is the highly ambitious target. More specifically, the removal of some existing constraints on the building of onshore wind and solar generation plants is envisaged. The West Lancashire and East Yorkshire coasts are well-placed to attract new onshore wind generation investment. Whether such investment can deliver an acceptable return for investors on an unsubsidised basis is debatable.
- ▶ In financing major public sector investment, more use may be made of the Private Finance Initiative (PFI) and similar public/private sector financing schemes. INPP's involvement in the Thames Tideway Tunnel (TTT) scheme, which was delivered on time and on budget, is widely seen as a good template that should be employed elsewhere. Among the quoted IICs to benefit from new financing initiatives for major projects are HICL and the aforementioned INPP, which recently confirmed that it is planning to invest in the Sizewell C nuclear power project.

## Energy prices

### Gas prices way off 2022 spring peak

Wholesale gas prices, both within the EU and in the UK, soared in the latter part of 2021 – and increased even further following the invasion of Ukraine by Russia. Subsequently, they fell quite sharply.

### Substantial boost to LNG deliveries

However, over the past 18 months, gas prices have been broadly flat, as the demand for gas has faltered and various alternative gas supplies, especially imported Liquid Natural Gas (LNG) deliveries, have been secured. Since January 2024, a new relative stability has been established, despite the ongoing Ukraine/Russia war.



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In fact, with the exception of GCP Infrastructure, which operates wind and solar plants, and Pantheon Infrastructure, long-term energy prices have a minor influence on the activities – and the valuation – of the other six IICs.

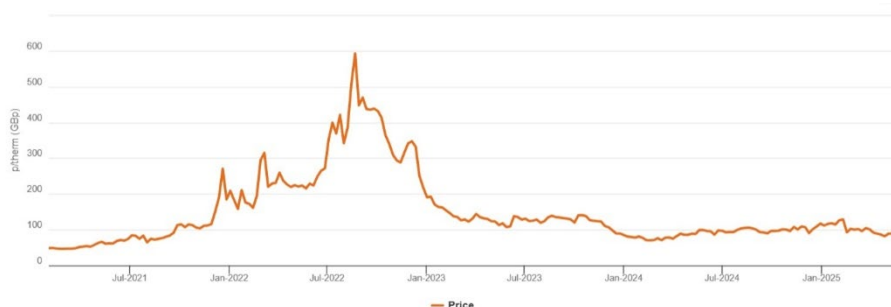
For the REIFs, very different criteria apply. Changing energy prices have a short-term impact on revenues from merchant sales – a small part of most leading REIFs' overall revenues. In time, contracted prices will reflect underlying movements in energy prices.

Importantly, long-term energy prices, in which gas input costs remain a key variable, are a core part of any REIF valuation appraisal. Over the past three years, changing energy price assumptions, along with adjustments to the prescribed discount rate, have been major drivers of NAV valuations – not forgetting their impact on dividend growth potential.

### Quite remarkable volatility

Ofgem's latest graph for the forward delivery of gas in GB is reproduced below. Overall, the volatility of gas prices since the early months of 2021 has been quite remarkable.

#### Gas prices – forward delivery contracts (GB weekly average)

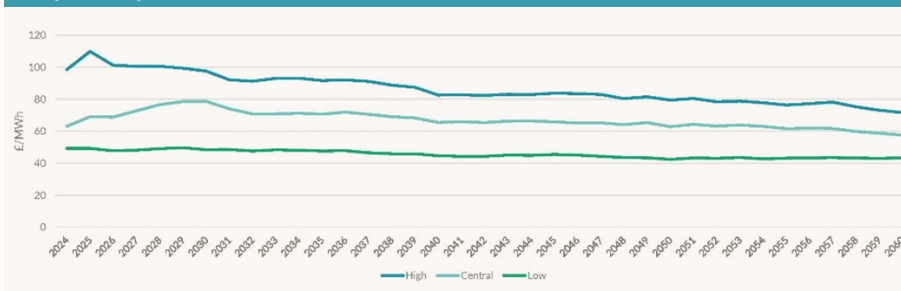


Source: Ofgem

### Downing's figures – up to 2060

Looking forward, there are varying views about long-term energy prices. At its Capital Markets' Day Presentation in July 2024, Downing Renewables and Infrastructure published a graph that indicated a forecast reduction of energy prices from £75 per MWh in 2030 to £60 (real) per MWh in 2050: the figures were based on data compiled by leading industry consultants. The graph is shown below.

#### GB power prices (£/MWh, real), 2024-60



Source: Downing Renewables and Infrastructure

## Other renewable energy issues

### Ongoing PFI/energy issues

Aside from the issues already addressed in this research paper – specifically the corporate activity involving Downing Renewables and Infrastructure and Harmony Energy Income – there are some further developments that should be noted:

- ▶ In the REIF sector, various Continuation Votes have taken place recently. In some cases – Aquila Energy Efficiency, Aquila European Renewables, Ecofin US Renewables and VH Global Energy Infrastructure, as well as the now delisted Triple Point Energy Transition – shareholders have voted against continuation. However, in other cases, such motions, including that covering the bellwether stock, Greencoat UK Wind, have failed.
- ▶ SSE, the UK's largest renewable energy company with almost 5GW of renewable generation capacity and a market valuation of almost £20bn, has confirmed that the operating profit of its renewable energy portfolio increased to £1,039m in 2024/25; this compares with £833m in 2023/24. To be sure, some recent acquisitions boosted the latest figures, which indicate the sheer size of SSE's renewable generation portfolio, with which only Greencoat UK Wind and TRIG within the REIF subsector can genuinely be compared.
- ▶ Further government announcements on planning issues covering new potential wind and solar plant sites are expected. Last year, the highly controversial go-ahead for the £600m Sunnica solar farm – covering some 2,500 acres – on the Cambridgeshire/Suffolk border was given; it overturned a previous ruling.
- ▶ The turnaround in fortunes of the BESS sector, after Gresham Energy Storage's notorious profit warning in February 2024, which also adversely affected the market ratings of Gore Street Energy Storage and of Harmony Energy Income, merits comment. While the latter has now been delisted, both Gresham House Energy Storage and Gore Street Energy Storage have announced good news of late – covering “long-term floor agreements” and the sale of ITCs, respectively.

# Conclusion

The interest rate driver – further cuts are not assured

Undoubtedly, the sudden increase in interest rates since 2021 – and not only in the UK – has presented both IICs and, more noticeably, the REIFs with real challenges – declining NAVs among them. Nevertheless, with a few exceptions, gearing levels remain reasonable – and certainly when compared with many private equity undertakings. Nonetheless, without doubt, capital allocation has become much more of a priority of late.

Long-term contract protection is key for IICs

For many IICs, with a portfolio of solid contracts, the impact of higher interest rates has been less – although it has dented their valuations.

Raising new equity capital probably a non-starter

For the REIFs, the challenges are greater for wind and solar generators operating in a market where prices fluctuate quite markedly, even if long-term energy price projections are less volatile. Some of the smaller REIFs are really struggling, for varying reasons, not least because fundraising in today's equity markets is probably a non-starter. As their shareholders seek to improve returns, share buybacks have become widespread; in some cases, weaker REIFs have found themselves in MWD.

Gilt market has its attractions

Nonetheless, real reassurance for most investors has been provided by the reliability – with a few exceptions, especially in the BESS sector – of dividend payments, even if any increases are nominal, rather than being real. However, in the quest for maximising financial returns, many investors will be more attracted to “risk-free” 10-year gilts, which are currently yielding ca.4.8%, rather than to much higher-yielding IICs and REIFs.

Challenges abound

Undoubtedly, for the entire sector, challenges abound on several fronts: commercial; operational; financial; and even political, as exhibited by Orsted over the past month. Those in MWD have manifestly failed to meet these challenges and others may also follow them into MWD over the coming two years.

### About the author

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