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Research

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Price (p)	88.00
Shares in issue (m)	591
Mkt Cap (£m)	536
Net debt (£m)	554
EV (£m)	1,090
BVPS (p)	120.9

Share price performance

1m	2.9%
3m	13.4%
12m	-21.8%
12 m high/low	114/76.6
Ave daily vol (30D)	932,183

Shareholders

Artemis	10.6%
M&G Investments	9.6%
Hargreaves Lansd'n	6.8%
Gravis Capital	6.4%
Legal & General	4.7%
Investec Wealth	3.9%
Privium Fund	3.8%
Interactive Investor	3.7%
Handelsbanken	3.3%
A J Bell	2.7%
Total for top 10	55.5%

Next news Q4NAV Q1

Business description

Solar generation and energy storage investment fund



HIGH YIELD WELL SUPPORTED

NESF remains one of the highest yielding of the clean energy yieldcos. The innovative preference shares are effectively non-amortising debt creating a cash cushion for the dividend and we see the underlying NAV calculation as sensibly conservative. Notably the capital recycling programme continues in an active market and lower module costs make reinvestment especially attractive.

Yield Attractive and Well Supported

However, NESF continues to be penalised, largely we believe due to misplaced perceptions of its debt position. As a result, while its discount is broadly in line with the lower end of the clean energy yieldco pack, it also shows one of the highest dividend yields at 8.7%. NESF's debt position contains different structures in comparison to peers, however it is not complex, their capital structure provides the fund with c.£200m preference issue paying 4.75% and which avoids the amortisation that burdens most other yieldcos. The prefs can be seen simply as non-amortising debt with non-cash repayment and give the company a cash cushion with which to maintain dividends. The preference shares offer a host of optionality from 2030 to 2036, where they can be redeemed at par value. Alongside this, we see the company's approach to its NAV calculation as sensibly conservative including the use of external ONS inflation assumptions rather than in-house estimates.

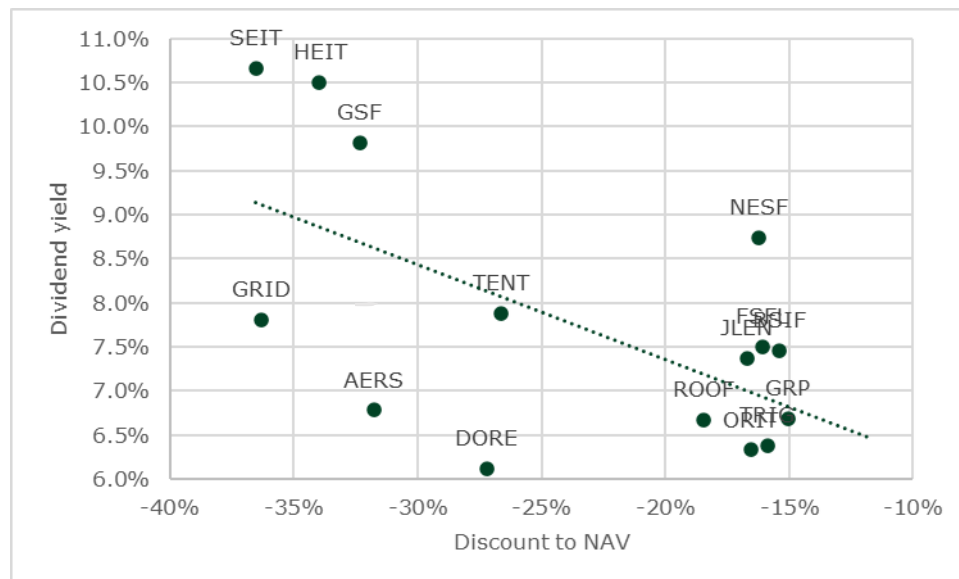
UK PV Asset Sales Market Remains Active

Along with other clean energy yieldcos, NextEnergy Solar Fund has been trading at discount reflecting higher interest rates. As we recently noted (Module Prices Boost Potential, Longspur Research, 15 January 2023) last year's base rate increase has been almost entirely offset by lower module costs, setting the company up well for delivery of the reinvestment phase of its capital recycling programme. NESF still has four projects to sell as part of the programme. The UK asset market dropped slightly in 2023 relative to 2022 but remains above the five-year average. The sale of the assets of Toucan Energy following its administration has perhaps taken focus away from sellers like NESF but this is approaching close, and we see unsatisfied bidders re-entering the market in due course.

YIELD ANOMALY

Discounts remain high in the clean energy yieldco space. NESF sits within a group of clean energy yieldcos at the lower end of the range. However, its high yield feels like an anomaly against this. With an effective cash cushion provided by the preference debt and what we see as conservatism in the NAV calculation, this anomaly appears unjustified to us.

Apparent Discount Anomaly



Source: Bloomberg

THE PREFERENCE SHARES

NESF has taken advantage of preference shares to fund its assets accounting for c.£200m of the £554m of total debt. This is unique among the renewable yieldcos although the instrument structure is quite straightforward.

The preference structure means that there is no cash repayment of the capital at any point. That has three impacts:

- Dividend payability is significantly enhanced by lack of amortisation
- Company does not need to find cash to refinance at maturity
- NESF has discretion to redeem across a six-year period from 2030 at par to issue value, which offers potential upside for investors.

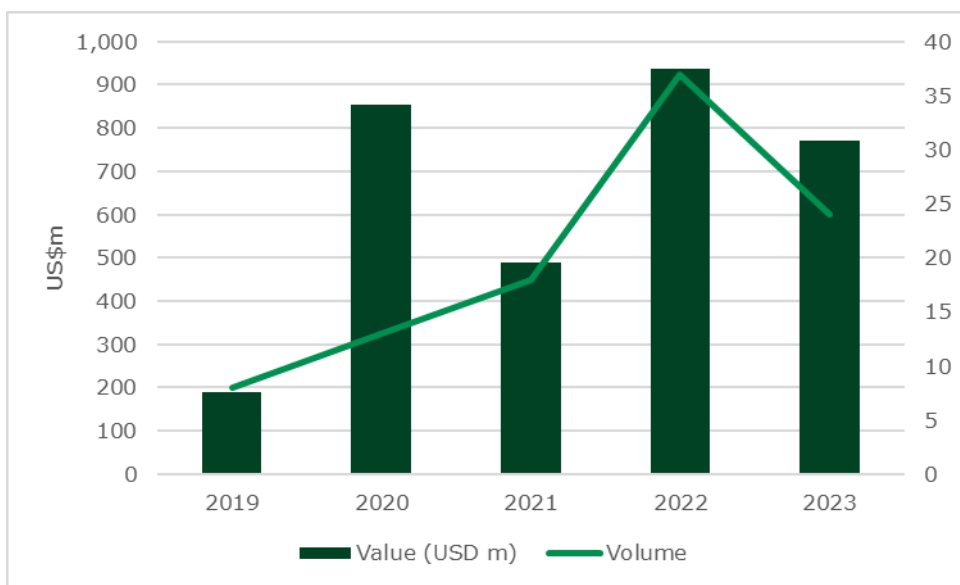
The prefs are redeemed with reference to the issue price of 100p plus any accrued but unpaid dividends compared to the NAV per share. Pref holders have the option to take ordinary shares or non-voting B shares with the same dividend and liquidation rights. There is a dilution risk but if the redemption is made at par then this is removed. The opportunity of an improved market environment compared to today makes this quite attractive in our view. Total gearing of 46.4% but this drops to 29.8% if the preference shares are treated as equity.

PV ASSET MARKET STILL ACTIVE

The market for PV solar assets in the UK remains active. Currently it is dominated by the sale of 53 assets totalling 513MW as a result of developer Toucan Energy going into administration at the end of 2022. The assets are being auctioned by KPMG spin-out Interpath Advisory. Trade press has suggested Schrodgers Greencoat, GLIL and CKI as contenders and a deal is thought to be close to completion. We think this is likely to see frustrated bidders come back to the market in due course.

The market has remained active despite higher interest rates and while 2023 was down on 2022 it remained well above the five year average.

UK PV Asset Sales Market Remains Active



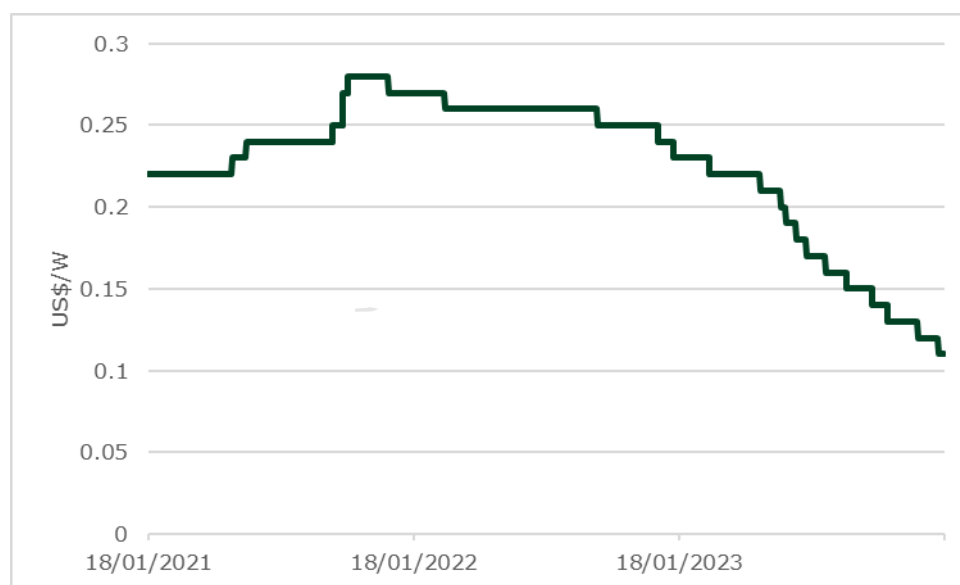
Source: Infralogic

MODULE PRICE FALLS CREATE OPPORTUNITY

The price of solar modules globally has been falling with increased silicon production capacity reducing module input costs. Solar grade silicon pricing has fallen 75% in the past twelve months and standard monocrystalline module prices are down 52%. With modules representing c.25% of PV project costs last year, overall project costs are down 14%.

For solar developers in the UK and Europe such as NESF a further benefit has arisen. The protectionist US Inflation Reduction Act and Indian tariffs and other measures have meant that Chinese PV module manufacturers are dumping product into Europe. There are reportedly 65GW of modules now warehoused in Europe, equal to a year's worth of installation at current rates. This is likely to mean even lower prices developers and for prices to remain low for longer allowing better long term returns on new projects brought to completion.

Cost of PV Modules Declining



Source: Bloomberg

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