

SDCL Energy Efficiency Income Trust

Robust performance in H125

SDCL Energy Efficiency Income Trust (SEEIT) reported robust H125 results. Its net asset value (NAV) increased marginally to 90.6p (90.5p at 31 March 2024), demonstrating resilience and stability despite the challenging market conditions. NAV was positively affected by portfolio valuation changes, but offset by FX movements. SEEIT paid a dividend of 3.16p in the six-month period (31 March to 30 September), 1.1x covered by cash inflows. Management also stated that the company is on track to deliver its FY25 dividend target of 6.32p (while maintaining its fully covered status). Based on the current share price, SEEIT offers a c 12% dividend yield and trades at a significant discount to NAV of c 43%.

Year end	NAV (£m)	NAV per share (p)	DPS (p)	Dividend cover (x)
03/20	323.5	101.0	5.00	1.5
03/21	694.0	102.5	5.50	1.2
03/22	1,073.0	108.4	5.62	1.2
03/23	1,125.0	101.5	6.00	1.2
03/24	982.0	90.5	6.24	1.1

Source: SEEIT

The cash inflow from SEEIT's portfolio increased by c 2.1% y-o-y to £48m, with distributions underpinned by a solid operational performance and aggregate EBITDA broadly in line with management's budget. The weighted average discount rate applied to the portfolio remained constant at 9.4%, with the impact of reductions in the risk-free rate absorbed through increases in the risk premium.

SEEIT has invested c £100m through organic investments since March 2024, primarily into Onyx and EVN. This highlights SEEIT's continued proactive approach to progress the construction of accretive investment opportunities, positioning the company's portfolio for greater total return growth. Funded through the company's revolving credit facility (RCF), these investments were subject to its disciplined capital allocation policy, which demands that all capital distributions meet a minimum threshold at the time of investment. SEEIT is also increasing its focus on reducing short-term borrowings, aiming to cut its RCF to £100–150m by the end of calendar 2025 (£165m drawn at 30 September 2024). Management continues to look at potential full or partial asset disposals, enabling the recycling of capital, following the successful sale of UU Solar in May 2024, from which the £90m proceeds were used to pay down its RCF to below £100m. Management also stated the potential for future share buybacks, using the proceeds from prospective disposals to enhance the company's NAV and return capital to shareholders.

SEEIT's significant discount to NAV (c 43%) seems unjust in our opinion, given its large and diversified portfolio mix, positive inflation correlation, strong balance sheet with low gearing relative to peers (35% of enterprise value), progressive fully covered dividend (1.1x covered by cash inflows from the portfolio at H125), which yields c 12%, and its long-dated average weighted contract value of c 16 years with high-quality counterparties. SEEIT therefore presents an attractive entry point for investors into the renewable energy infrastructure investment trust sector.

Investment trusts
Renewable energy infrastructure

5 December 2024

Price 51.90p
Market cap £563m
AUM £1,102m

NAV/share* 90.6p
Discount to NAV 43%
*Including income. As at 30 September 2024.
Dividend yield 12.2%
Ordinary shares in issue 1,085m
Code/ISN SEIT/GB00BGHVZM47
AIC sector Renewable Energy Infrastructure
52-week high/low 69.5p 51.8p
NAV high/low (including income) 101.5p 90.5p
Total gearing* 35%
*% of enterprise value. As at 30 September 2024.

Fund objective

SDCL Energy Efficiency Income Trust's objective is to generate an attractive total return for investors, comprising a stable dividend income and capital preservation, with the opportunity for capital growth.

Bull

- SEEIT provides a high dividend yield while trading at a significant discount to NAV, offering a total-return focus and an attractive entry position.
- A progressive dividend, which has been significantly covered since inception.
- Further scope for operation and efficiency gains within its portfolio, adding accretive value.

Bear

- Coming out of a prolonged period of high inflation and interest rates, but there is still uncertainty within the economic and geopolitical environment.
- Counterparty risk (although SEEIT is well diversified).
- A relative negative investor sentiment remains towards the renewable energy infrastructure investment trust sector.

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