

SDCL Energy Efficiency Income Trust

Increased cash generation and portfolio value

SDCL Energy Efficiency Income Trust (SEEIT) recorded a 9% increase in cash from investments in FY24, generating £92.5m (FY23: £85.1m), ensuring its DPS of 6.24p was fully covered by cash 1.1x. The board guided a target dividend of 6.32p per share for FY25 (9.5% prospective yield). The portfolio valuation stood at £1,117m (4.8% increase from H124 and 1.6% from FY23). Both SEEIT's NAV and NAV per share remained flat for FY24, at £982m and 90.5p/share, compared to H124, with the majority of the reduction from FY23 (£1,125m and 101.5p/share) arising from the unrealised impact of increased discount rates applied in the first half of FY24. SEEIT currently trades at a 26% discount to NAV with a 9.4% dividend yield, and management has made strong progress in addressing the discount to NAV through proving its asset valuations.

Year end 31 March	FY20	FY21	FY22	FY23	FY24
NAV (£m)	323.5	694	1,073	1,125	982
NAV per share (p)	101.0	102.5	108.4	101.5	90.5
DPS (p)	5.00	5.50	5.62	6.00	6.24
Dividend cover	1.5x	1.2x	1.2x	1.2x	1.1x

Source: SEEIT

SEEIT completed an asset sale, post FY24, with the disposal of UU Solar for £90.8m (4.5% premium to its carrying value at H124), with all of the proceeds used to reduce the fund's short-term debt. This led to a net reduction in short-term borrowings, post year end, from £155m (31 March 2024) to £98m (31 May 2024). SEEIT's sale of UU Solar, at a premium, and its conservative independent asset valuations should bolster investor confidence regarding its NAV.

Throughout FY24, SEEIT invested c £161m (majority into existing investments) and a further c £23m was deployed post year end. SEEIT stated it remains committed to addressing the share price discount and proving asset valuations via selective disposals and/or bringing in funding partners to source cash for reinvestment at greater rates of return and repay its revolving credit facility (RCF). Its capital allocation policy will ensure that returns on new investments outweigh any potential opportunity costs in share buybacks and reducing short-term debt. SEEIT delivered a £38m uplift to the portfolio in FY24 and could see potential additional uplift in excess of £145m over the next two to five years based on accretive upside on its larger assets. SEEIT completed a £20m share buyback programme in H124, highlighting that both the board and management saw, and continue to see, SEEIT as undervalued given the similar current discount to NAV (26%).

Total gearing, including its RCF (utilised to fund organic investments), stood at 49% of NAV at 31 March 2024 and is low compared to its relative peers. Post the sale of UU Solar, this reduced to 43% of NAV, with a further c £200m headroom in gearing capacity. SEEIT's weighted average interest rate on its portfolio debt stands at 6%, with an average life remaining of 3.7 years, and its fixed interest rate exposure of drawn portfolio debt is 80%. The weighted average discount rate applied increased 90bp in FY24 to 9.4% (FY23: 8.5%), but remained flat from H124 (9.4%).

In our view, SEEIT presents an attractive 9.4% dividend yield and a potential 35% additional return if the discount to NAV were to close. It has also continued to strengthen and add accretive value to its portfolio while making strong progress in addressing the disconnect in valuations between public and private markets.

Investment trusts
Renewable energy infrastructure

28 June 2024

Price 66.7p
Market cap £724m
AUM £1,117m

NAV/share* 90.5p
Discount to NAV 26%
*Including income. At 31 March 2024.
Dividend yield 9.4%
Ordinary shares in issue 1,085m
Code/ISN SEIT/GB00BGHVZM47
AIC sector Renewable Energy Infrastructure
52-week high/low 79.5p 51.8p
NAV* high/low 101.5p 90.5p
*Including income.
Net gearing (% of NAV. As at 31 May 2024) 43%

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

- Prolonged period of high inflation and interest rates and potential rises in discount rates.
- Counterparty risk (although SEEIT is well diversified).
- A relative negative investor sentiment remains towards the renewable energy infrastructure investment trust sector.

Analysts

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