EDISON

# SDCL Energy Efficiency Income Trust

## Portfolio growth ahead of budget

Investment trusts
Renewable energy infrastructure

**SDCL Energy Efficiency Income Trust's (SEEIT's) interim update (for the six months to 30 September 2024) has highlighted that its operational assets, on a consolidated basis, are performing in line with management's expectations and that the portfolio is well positioned for growth. SEEIT is actively pursuing additional financing, co-investment and disposal opportunities to support the capital needs of Onyx and EVN, which are growing ahead of budget. Surplus capital will be used to pay down SEEIT's revolving credit facility (RCF). Management believes SEEIT is on track to deliver its target dividend of 6.32p per share for FY25 (10% current yield), which is fully covered by net operational cash received from investments.**

| 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

Onyx, now SEEIT's largest asset, provides on-site generated solar power to the commercial and industrial sectors across 14 US states and has continued to create and convert a significant pipeline through its development activity. Onyx has already met its 70MW notice to proceed target for the year and is on track to meet, or exceed, its annual power purchase agreement target. Onyx is also due to meet its commercial operation date target for 2024, which is the point at which new projects begin generating revenue. EVN has seen increased demand for ultra-fast electric vehicle charging stations across the UK and has brought three additional sites online (26 total sites). Management forecasts that RED-Rochester (one of the US's largest district energy systems), however, will miss its budgeted FY24 EBITDA by c 17%, due to lower demand from one of its key customers. Management believes the underperformance seen is predominantly short term, with current negotiations on tariff amendments expected to improve its EBITDA. RED-Rochester's co-generation power plant project remains on track to come online by Q125.

At end-FY24, management guided for £75–125m of organic investments in FY25. During H124, SEEIT invested c £74m into Onyx and c £4m into EVN. However, management still expects the total for FY24 to remain within the forecasted range. With equity financing not viable, due to the current discount to NAV, SEEIT is seeking other sources of financing to support shareholder value. These include extending its project level financing, asset disposals and re-investment, and SEEIT is also looking to introduce co-investment in some assets.

Management has entered discussions to increase and extend its RCF beyond the maturity date of 2026, with the process expected to conclude during Q424. The refinanced RCF will be used to provide capital to protect shareholder value at Onyx and EVN until the completion of co-investment or disposal processes and/or the project level financing. The proceeds of this will be used to pay down the RCF (c £165m at end-H124), which is c £35m above management's expected target for 30 September 2024 due to the accelerated deployment at Onyx, which has required construction funding on a short-term basis from SEEIT.

**1 October 2024**

| | |
|---|---|
| **Price** | **63p** |
| **Market cap** | **£683m** |
| **AUM** | **£1,117m** |

| | | |
|---|---|---|
| NAV/share* | | 90.5p |
| Discount to NAV | | 30% |
| *Including income. As at 31 March 2024. | | |
| Dividend yield | | 10% |
| 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* | | 30% |
| *% of enterprise value. As at 31 March 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.

### Analysts


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