



Results analysis: Octopus Renewables Infrastructure

ORIT delivers another year of dividend increases in line with CPI, as well portfolio sales above valuation, demonstrating the validity of the net asset value. But against a weak macro background the discount has widened to over 30%...

Update
28 March 2024

- Octopus Renewables Infrastructure (ORIT) produced an NAV total return of 2.1% for the year ending 31/12/2023 (2022: 12.4%). The trust's NAV fell from 109.4p to 106.0p (-3.1%) largely as a result of falling power price and inflation forecasts, and an increase in discount rates. Since IPO in December 2019 ORIT has generated an NAV total return of 28.6%.
- Share price total return was -4.4%, as ORIT and its peer group continued to experience share price weakness against a backdrop of higher inflation and interest rates. Since IPO, share price total return is 6.7%.
- Dividends totaling 5.79p were paid in the year ending 31/12/2023, covered 1.18x (2022: 1.77x), a 10.5% increase on the previous year and in line with CPI inflation. The 1.18x coverage does not include the positive impact of the gains from asset sales above their holding value (see later), and including this figure the dividend cover would have been 1.52x.
- Dividend guidance for the year to 31/12/2024 is for an increased dividend of 6.02p, an increase of 4.0%, again in line with CPI inflation. The dividend is expected to be fully covered.
- ORIT made three new acquisitions for a total of c. £7m. Two were into new technologies for ORIT: a battery storage asset, a green hydrogen production development platform, and additionally a UK-focussed solar and storage developer platform.
- ORIT sold two assets, both Polish onshore wind farms, for a total of £92m, a 21% premium over the pre-disposal holding value. This generated a c. 3% uplift to NAV and an IRR of c. 30% over the holding period for the investments.
- ORIT produced 1,110 GWh (2022: 1,005 GWh), 14% below target of 1,291 GWh, generating revenue of £117.4 million (2022: £112.0 million), 16% below target of £139.8 million. Low onshore wind speeds and lower power prices were the main factors.
- Including the Irish assets which were acquired post year-end but from which ORIT received 2023 cash flows, and excluding any post locked-box contribution from the Poland assets that were sold in the year, output was 1,224 GWh – 22%

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higher than 2022, demonstrating the continued growth of the operational portfolio.

- 81% of ORIT's revenues for the 2 years looking forward from 31/12/2023 are fixed, an increase from 69% for the equivalent look forward period from the year before. Examples of fixed contracts include a 10-year, inflation-linked corporate PPA with Iceland Foods for the Breach solar farm, and 5-year PPAs for three of ORIT's UK solar farms.
- ORIT's portfolio comprised 37 assets (including developers) across six countries (UK, France, Ireland, Finland, Sweden and Germany) and five technologies (solar, onshore wind, offshore wind, battery storage and hydrogen production). Total asset capacity, excluding conditional acquisitions, totalled 609MW (2022: 662MW).
- Once fully operational, the portfolio has the potential to power the equivalent of 384,000 homes with clean energy, with an estimated 400,000 tonnes of carbon emissions avoided.



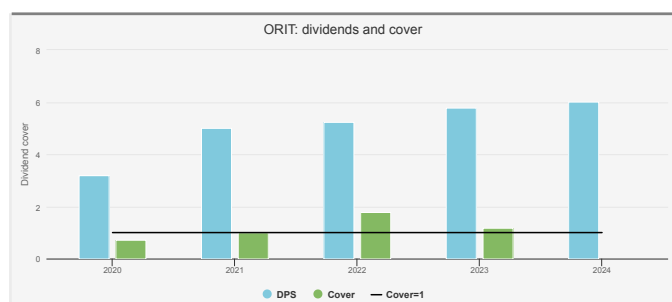
- **ORIT currently has 73MW of new renewable generation capacity under construction, through the Breach solar farm and Woburn Road battery storage projects, which are expected to become operational in Q2 2024 and Q1 2025 respectively.**
- **Phil Austin, chair, said ““Despite the market challenges experienced in the investment trust sector in recent months, the fundamental driving forces behind clean energy investment are stronger than ever, and we believe that ORIT is very well placed to continue its contribution to the transition to net zero whilst ensuring an attractive level of returns for our shareholders.”**

Kepler View

One quite understandable ask from investors to investment trusts investing in non-listed assets trading at a discount is to ‘prove’ the valuation by selling some assets. It’s good then that **Octopus Renewables Infrastructure (ORIT)** recycled quite a significant amount of capital from two Polish wind projects it had brought through the construction phase to fully operational, and then sold for an uplift to the valuation. The IRR generated, c. 30%, is a demonstration that taking some construction risk can generate attractive returns for relatively small initial outlays in the context of the overall net assets. ORIT’s acquisitions for £7m last year are largely development focused and could be a source of significant returns over the coming years, even as the more conventional route for growing the portfolio by raising new equity for acquisitions remains closed while ORIT and its peer group remain on a discount.

While ORIT, and others, is still seeing the effects of higher interest rates leading to softening discount rates, it has continued to deliver dividend growth in line with CPI. Linkage to inflation might have seemed like a slightly academic feature when ORIT completed its IPO in 2019, but that’s hardly the case today, and the potential to generate real returns should eventually help remove the ‘bond proxy’ label that was applied during the years of zero interest rates. The chart below shows ORIT’s

Fig.1: Dividends And Cover

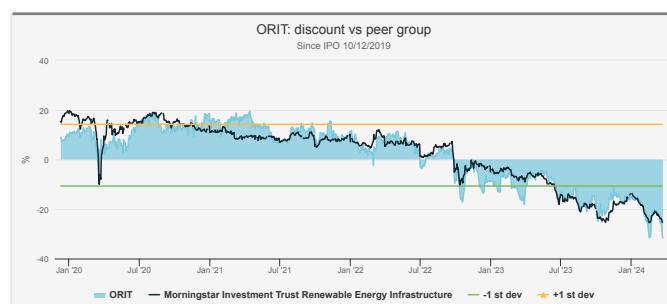


Source: ORIT

dividend (blue) and dividend cover (green) below. ORIT’s board announced a target dividend for the year ending 31/12/2024 and although we can’t yet know what the cover will be, the target has been set in the expectation that the dividend will be fully covered again. This increased target marks the third consecutive dividend increase in line with CPI inflation.

Since the year end, ORIT and its peer group have seen a significant further widening of discounts, as illustrated in the chart below. ORIT now trades at a c. 32% discount to its last published NAV, an 8.4% dividend yield, which is a spread over well over 400bp to UK 10-year gilts. Considering that ORIT has provided considerable evidence about the validity of its NAV in the last financial year, has increased the percentage of fixed contracts to over 80% and has a good pipeline of potentially value-enhancing projects to come through its development investments, this could prove to be a fundamental mis-pricing of the shares for long-term investors.

Fig.2: Discount



Source: Morningstar

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