Octopus Renewables Infrastructure (ORIT)

ORIT shows the tangible benefits of asset diversification...

Update
15 May 2025

Overview

Octopus Renewables Infrastructure (ORIT) owns a c. £1bn portfolio of renewable energy generation assets. A key strength is its diversification, with operating assets located in several different countries and spread across different technologies, principally solar, onshore and offshore wind. In the **Portfolio section**, we look at the tangible benefits of diversification. ORIT also has equity stakes in developers, giving it access to projects at an early stage, with the potential to generate higher returns. 2024's sale of a fully operational Swedish wind asset for an 11% IRR provides a case study for the ORIT team's ability to move a project from pre-construction to operation and then sale, generating returns above the trust's long-term targets.

ORIT currently yields c. 8% and since 2021 has established a track record of increasing its fully covered dividend in step with UK CPI inflation. The dividend target set by the board for the financial year ending 2025, if achieved, would mean the fourth consecutive year of dividend increases in line with inflation. ORIT has a relatively high proportion, 84%, of its energy prices fixed over two years and almost 50% of its assets have inflation linkages over ten years.

ORIT's high dividend yield is in part a function of its c. 27% discount and in response to this the board has adopted a capital allocation policy that is focussed on reducing debt, buying back shares, and selling some strategically selected assets while maintaining the ability to make selective new investments. We look at this policy in more detail in the **Discount section**.

ORIT's manager, Octopus Energy Generation (OEGEN) is one of Europe's largest investors in renewable energy and the team managing ORIT directly, led by David Bird and Chris Gaydon, has access to over 150 professionals with experience across all aspects of investment and management, covering multiple geographic markets and technologies.

Analysts:
Alan Ray
alan@keplerpartners.com

Analyst's View

ORIT has no direct exposure to the US, where a significant policy shift away from renewables is underway, and is invested across a range of countries that maintain a very constructive approach to renewables. Indirectly, the team reports that equipment supply chains are not affected by tariffs, as generally, the US does not export equipment involved in renewables. Conversely, supply chain pressures could ease if the US imports less. Consequently, the team see the US's position as, at worst, neutral for ORIT.

In the **Dividend section**, we show how ORIT's average asset life has increased from 28 to almost 30 years over the last four years through active management, which is crucial for maintaining and increasing dividend cover over the long term. This gives us further reassurance that the progressive dividend policy can be maintained in the future.

The US is, however, weighing heavily on wider investor sentiment, not least because it clouds the picture for interest rates and inflation, and the knock-on effect for ORIT and its peer group is a continuation of the wide discount. In response, ORIT's capital allocation policy includes an expanded £30m share buyback programme and a reduction in total debt, funded by asset disposals at or above NAV. These have demonstrated the team's ability to move a project from pre-construction, through to operation, to generate returns above the trust's targets. If the very wide discount continues to narrow, investors could achieve returns considerably higher than this.

BULL
Diversification provides quantifiable benefits to power output
An 8% yield backed by a covered dividend growing in line with inflation
Robust capital allocation policy enacted to address the discount

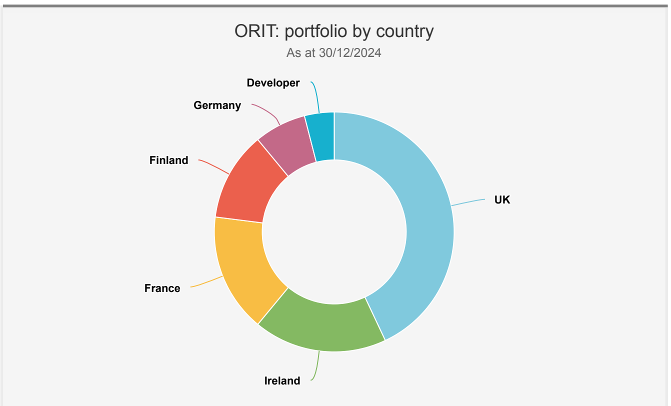
BEAR
Investor sentiment toward listed renewables is weak
Capital allocation policy reduces ORIT's ability to acquire new operational assets
Gearing can amplify losses as well as gains

Portfolio

Octopus Renewables Infrastructure (ORIT) has a c. £1bn portfolio, mainly comprising renewable energy generation assets. Approximately 96% of the portfolio by value is fully operational generating assets and is diversified across the UK, Ireland, France, Finland, and Germany. The portfolio is also diversified in terms of technology, principally solar, onshore and offshore wind, with some exposure at the developer level to other technologies such as energy storage and floating offshore wind, which is a newer form of offshore wind designed to be deployed in deeper water.

ORIT also has a small allocation of equity stakes in developers, giving it access to projects at early stages, with the potential to generate higher returns. Existing portfolio company Simply Blue, an Irish developer of offshore wind and sustainable fuel projects was ORIT's largest additional investment during 2024, with a €7m further funding round to maintain the trust's 20% ownership of the company. Simply Blue's main markets are Ireland and Canada, where it has a presence in offshore wind and sustainable aviation fuels. The chart below, showing geographic exposure, shows 'developers' as a separate category, and illustrates that the size of investment is relatively small compared to the operational asset portfolio's value of c.£1bn. An investment such as Simply Blue could provide ORIT with a direct route to acquiring new assets in future, as well through equity upside from the growth of the company itself as it wins new clients and projects.

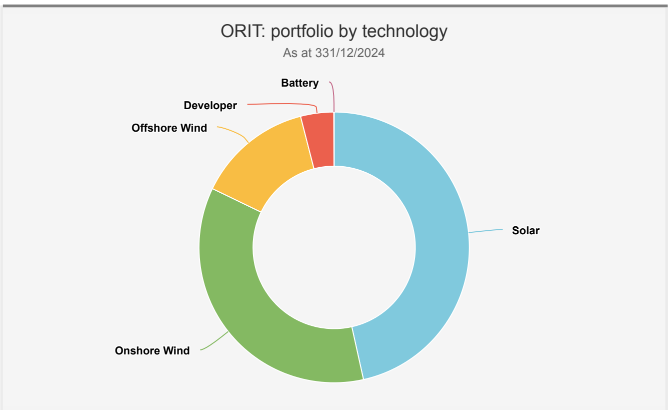
Fig.1: Portfolio By Geography



Source: ORIT

Again, the chart below separating the portfolio by technology shows developers as a distinct category. As we'll look at in slightly more detail further on, one of the benefits of a portfolio with a balance between solar and wind is that there is a reliable inverse correlation between the two. This holds true over short periods like a single day as well as seasonally. Simply, a sunny summer day is on average less windy than a windy, overcast winter day and including both in the portfolio can to some extent smooth out variations in power output over a day, or across several seasons.

Fig.2: Portfolio By Technology



Source: ORIT

ORIT's diversification across technology, geography, and stage is one of its key strengths. The simple example above is just one aspect, as ORIT's assets are spread across different weather systems in different parts of Europe, so the effect of diversification is more complex. The ORIT team recently conducted some quantitative analysis which has interesting results. To do this, they took two different portfolios: the actual ORIT portfolio and a simulated one where each asset combined a single technology with a single country. Although the simulated portfolio includes the same countries and technologies as ORIT, it removes some of the benefits of exposure to different weather systems.

To make sense of this, it helps to know that renewable energy generation assets' energy yield, essentially the amount of energy generated over time, is inherently variable. This is mainly due to weather patterns but other factors such as equipment performance also play a role.

The renewable energy industry has a vast amount of data to model different probabilities for energy yield ranging from the most conservative to the most optimistic. In the middle sits the likely outcome. These scenarios are widely referred to as P90 (conservative), P50 (middle), and P10 (optimistic) in the industry. ORIT's 2024 annual report provides a more detailed description of these on page 57 .

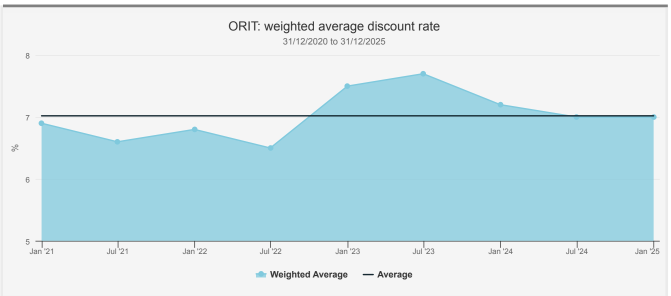
Essentially, ORIT's analysis shows that the gap, or spread, between the most conservative P90 and the middle P50 scenarios is about 40% narrower for ORIT's actual portfolio when compared to the second scenario described above. Lower variability in energy yield has practical consequences for ORIT, in that it should experience more resilient and predictable cashflows over time compared to a less diverse portfolio. We could also describe this as a 'portfolio effect' which suggests that the whole portfolio is more predictable than the sum of the parts.

In a broader context, this variability in energy yield is why power interconnects across Europe are increasingly important, as national grids require the extra stabilisation that comes from connecting to other countries' power grids and thus weather systems.

Another aspect of diversification is to reduce exposure to a single political regime. Renewable energy is, for many countries, assisted by various direct and indirect policies. ORIT's portfolio is spread across countries with wide consensus on policy and where renewable energy is already an important part of the overall energy mix, and therefore difficult to reverse. ORIT has no exposure to US renewables assets and thus there is no direct impact from the recent policy shift in the US away from renewable energy. The team notes that the direction of policy in its investee countries is much more favourable. Further, renewable energy supply chains do not rely on equipment coming from the US, either components or assembled equipment. If anything, supply chains that over recent years have been quite tight due to high demand may ease for non-US renewables projects as the effect of US tariffs slows demand from the US. Like many other aspects of the US trade tariffs, it is hard to precisely read what the long-term impact with be, but with no direct or indirect US exposure, it seems very likely that the impact on ORIT at an operational level will be neutral at worst.

ORIT's weighted average discount rate is tracked from IPO to the end of Q1 2025 in the chart below, with the black line showing the average. While the portfolio average is influenced by other factors such as changes in the portfolio composition over time, the chart suggests that there is a correlation to interest rates, and ongoing uncertainty among investors about the timing and direction of changes to interest rates is a factor in the **Discount**. In Q1 2025 the discount rate rose from 7.0% to 7.6% as the effect of sustained higher interest rates and bond yields began to be reflected in longer-term assumptions, together with some transactional evidence supporting the higher discount rate.

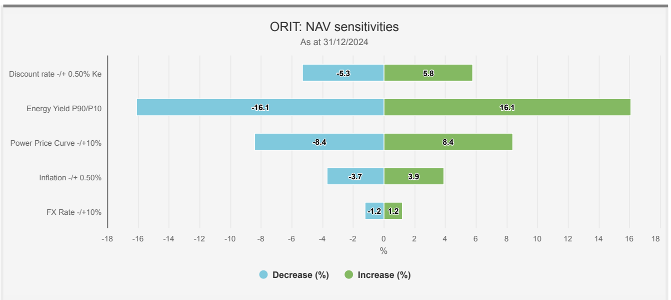
Fig.3: Weighted Average Discount Rate



Source: ORIT

As the next chart shows, power output is one of the most important sensitivities when it comes to valuing renewables assets. This is exactly the area that ORIT's diversification analysis above highlights, with lower downside sensitivity as a result of diversification . We discussed the different categories on this chart in more detail in our last note on ORIT. As we see below, and in more detail in the **Dividend section**, inflation is also an important sensitivity, with ORIT's contractual terms on a number of assets generating higher income as a result of higher inflation, feeding through to a rising dividend. While ORIT does offer geographic diversification benefits, its sensitivity to FX changes is relatively low due to a hedging strategy which hedges a minimum of five years of forecast non-Sterling revenues.

Fig.4: Discount Sensitivity



Source: ORIT

Gearing

ORIT was geared at 45% LTV (82% of NAV) on 31/12/2024, which is the combined total of project-level debt, the trust's revolving credit facility (RCF), and a recent term loan replacing some of the RCF at a lower interest cost. ORIT's capital allocation policy, summarised in the **Discount section** includes an objective to reduce gearing to 40% LTV (67% of NAV) by the end of 2025, a level that would be comparable with the peer group. ORIT's current slightly higher gearing may be one factor behind its wider than average **Discount**.

The different aspects of the debt are:

- £307.2m of project-level debt, which is c. 92% hedged (i.e. interest rates are fixed) with an average life of 14 years and average interest rate of 2.70%. This provides c. 30% of the overall 45% LTV gearing;
- £52.7m of the RCF. Further, the total amount available to borrow in the RCF was reduced from £270m to £150m; and
- in Q1 2025, ORIT borrowed £100m of debt secured on a portfolio of UK assets. £98.5m was used to reduce the RCF, above.

As a result of the new debt facility, the average interest rate across all debt (project and holding companies) fell from 4.0% to 3.7%. The annual cost saving from reducing the RCF size amounts to c. £850K.

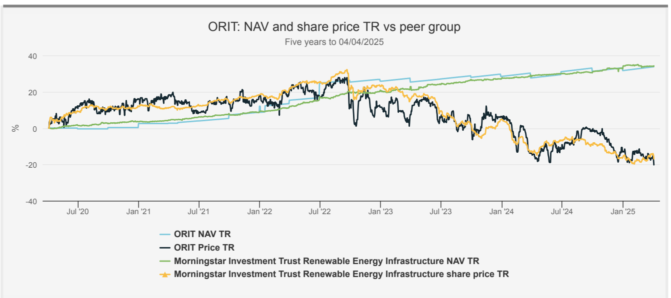
ORIT's project-level debt, as normal for renewable assets, amortises over its term rather than being a single repayment at the end and, as a result, if no further investment activity took place, the gearing would naturally fall to about 20% LTV over ten years.

ORIT's long-term project-level debt is predominantly secured against euro-denominated assets with long-term government-backed cashflows, as these are likely to secure the most favourable terms; also borrowing in euros acts as something of a natural currency hedge. In the **Portfolio section**, we show ORIT's main NAV sensitivities, including its relatively low FX sensitivity, in part due to the natural hedge that this debt creates, and in part due to currency hedging on forecast non-Sterling revenues.

Performance

Over the last five years, ORIT's NAV and share price total return diverge significantly, 33% and -10% respectively. As the chart below illustrates, this divergence is seen across ORIT's peer group, with the average NAV and share price total returns very similar to ORIT at 34% and -15%. As we discuss in the **Discount section**, share prices across the peer group have fallen for similar reasons, related to higher interest rates and investors switching into bonds.

Fig.5: Five-Year Performance

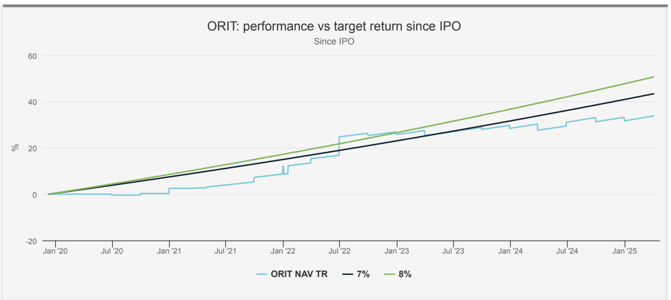


Source: Morningstar

Past performance is not a reliable indicator of future results.

ORIT does not have a formal benchmark but does have a target total return of the NAV of 7–8% over the long term. The chart below plots ORIT's NAV total return against 7% and 8% compounding. In 2023 and 2024, ORIT's performance began to lag the target return as the impact of higher rates fed through to higher debt costs on ORIT's RCF, which, as we see in the **Gearing section**, has now been reduced significantly, and a rise in discount rates across renewables assets generally, which contributed to a softer NAV. The context is therefore largely one of weaker performance due to external factors, and as we see in the **Dividend section**, ORIT has continued to grow its dividend in line with inflation over this period.

Fig.6: Performance Since IPO



Source: Morningstar

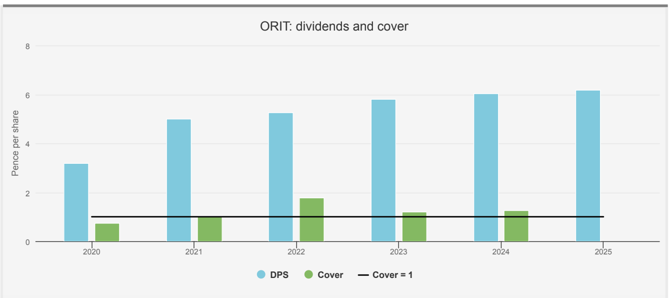
Past performance is not a reliable indicator of future results.

Dividend

ORIT currently yields c. 8%. The dividend for the year ending 31/12/2024 was covered 1.24x by operating cashflows and marked the third consecutive year the dividend was increased in line with UK CPI. The board's dividend target for the year ending 31/12/2025, 6.17p, would, if met, be an increase of 4%, again in line with inflation. This increase is also expected to be fully covered and at the time of writing the first interim dividend has already been paid in line with the target.

In the **Gearing** and **Discount sections**, we look at how ORIT is reducing the size of its gearing and buying back shares. These measures should all enhance earnings per share and thus contribute to higher dividend cover.

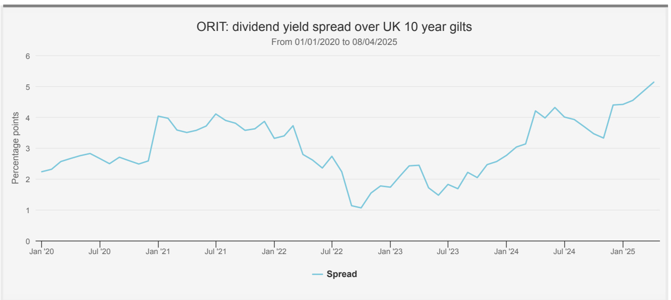
Fig.7: Dividend And Cover



Source: ORIT

As we've noted previously, ORIT's characteristics include equity upside and income linked to inflation so any comparison to government bonds is far from perfect but, given the income streams they generate, is still a relevant comparison. Thus, the spread between ORIT's dividend yield and the UK's ten-year benchmark is an alternative way to look at the discount as well as the yield. The chart below plots the spread since the start of 2020, and as the chart shows, this is currently at a lifetime high, which we see as a strong signal of ORIT's extremely low valuation in share price terms.

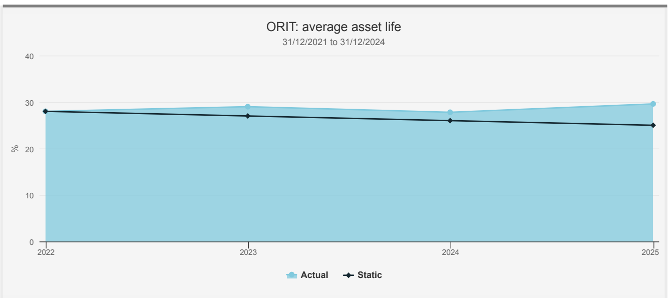
Fig.8: Spread Over Gilts



Source: Morningstar

Renewable energy assets typically have a fixed life over which cashflows are generated. Although asset lives may be extended by maintenance and upgrades, and there is a strong likelihood that sites with solar assets will continue as such beyond a single asset life, modelling does not generally factor in these potential upsides. To maintain dividend cover, part of the role of an active manager is to keep average asset lives across the portfolio from falling each year because if a portfolio is left to passively runoff, it will eventually reach the end of its life. The chart below shows ORIT's actual average asset life measured at the end of the last four financial years in the blue-shaded line. The black line simply shows what would have happened if the portfolio at the end of 2021 had been left to run off. ORIT's most recent average asset life is c. 29.6 years (as of 31/12/2024), whereas without any active management, the figure would have been 25 years. The difference comes from a combination of acquisitions, disposals, and development and construction assets reaching maturity. ORIT's development and construction capabilities not only offer an upside to NAV returns but can contribute to extending the overall portfolio asset life and thus long-term dividend cover.

Fig.9: Average Asset Life



Source: ORIT
Past performance is not a reliable indicator of future results.

Management

ORIT's investment manager is OEGEN, which manages renewable energy and associated assets valued at £6.8 billion with a capacity of over 4.5GW, equivalent to powering 2.3m homes. About 3.9GW of this comes from renewable energy, making it one of the largest renewable energy investors in Europe.

OEGEN began 2011 with investments in development and construction assets, which is particularly relevant given that construction and development are 'baked in' to ORIT's strategy. ORIT's manager has the capabilities and experience to fund construction and development, which typically requires less capital than acquiring operational assets and so can be funded from ORIT's existing cashflows. OEGEN has over 150 employees covering transactions, energy markets, asset management, fund management, business operations, and finance as well as risk and compliance and has invested in over 20 countries and across 18 different technologies.

The team specifically responsible for ORIT is led by David Bird and Chris Gaydon. David, a chartered accountant, is an investment director at OEGEN, joining the team in 2014. He sits within OEGEN's transaction team which focusses on acquisitions and project finance raising. He previously led OEGEN's bioenergy investment team and sits on a number of industry panels convened by Ofgem, the GB energy regulator. Before joining Octopus, David was a director at a boutique investment manager with a particular focus on renewables.

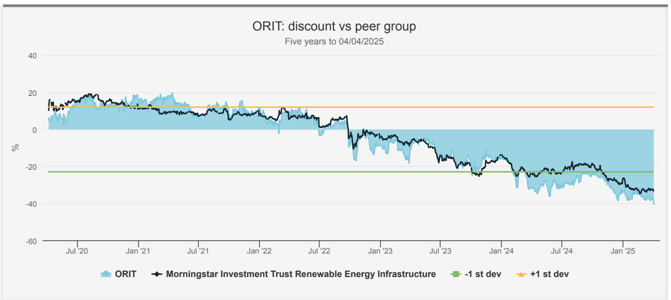
Chris has managed ORIT since its IPO in 2019. He is also an investment director at OEGEN, joining in 2015. He sits on OEGEN's Investment Committee and now focusses on the origination of acquisition opportunities and fundraising, as well as strategic investments in related sectors.

Prior to joining the Octopus Group, Chris was a business development director at Falck Renewables where he had a range of roles, including in M&A and leading greenfield development platforms.

Discount

ORIT's current discount is c. 27%, similar to the peer group average of c. 29% and, following recent share price moves, narrower than its 12-month average of c. 31%. As the chart below shows, ORIT's discount continues to be part of a peer group trend, driven by weak investor sentiment and higher interest rates, rather than as a judgement on the operational performance of the underlying assets. The discount has narrowed very recently, again as part of a wider trend in the peer group, possibly as a result of a very recent rate cut in the UK, although it's probably too soon to say whether this is a definite trend.

Fig.10: Discount Vs Peer Group



Source: Morningstar

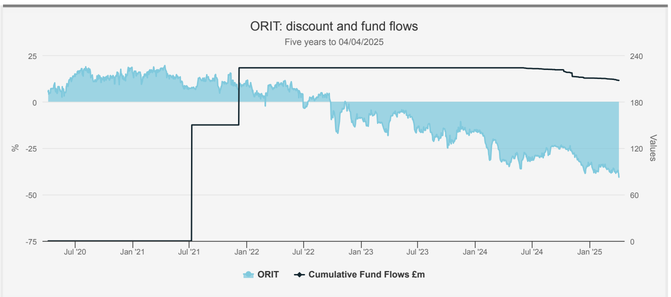
ORIT's board has implemented a capital allocation policy in response to the wide discount:

- A share buyback programme for £30m, of which c. £11m has already been executed.
- Asset disposals to date totalling £161m, and an objective of at least a further £80m by the end of 2025.
- Targeting a reduction in gearing to below 40% LTV by the end of 2025.

ORIT will continue to make selective investments, notably in situations such as its investment in developer, Simply Blue, where ORIT contributed €7m in mid-2024 in a funding round to allow the developer to progress its pipeline.

The chart below shows ORIT's discount against flows in and out of the trust, with the positive jumps in the black line denoting further capital raises executed by ORIT after its IPO and then more recently the share buybacks are shown by the descending slope. It is early days for the effects of the capital allocation policy to be felt, but with a reduction in gearing and further share buybacks, we think this could provide a catalyst for the discount to narrow, while share buybacks also provide an uplift to NAV and to earnings per share, potentially translating to higher dividend cover.

Fig.11: Discount And Fund Flows



Source: Morningstar

ORIT has a continuation vote every five years, with the first one scheduled for the AGM on 13/06/2025.

Charges

ORIT's ongoing charges figure (OCF) for the financial year to 31/12/2024 was 1.21% (2023: 1.16%), compared to an average of 1.16% for the AIC renewable energy infrastructure peer group.

The management fee covers all aspects of investment and asset management. It follows a tiered structure, with a charge of 0.95% on the first £500m of net assets and then 0.85% on net assets above this level. ORIT's current net assets are c. £570m. At that level, the blended fee is equivalent to 0.94%.

ORIT's KID Reduction in Yield (RIY) figure is 1.46%, which includes the cost of acquiring assets (for example the legal and accounting costs associated with due diligence on purchasing assets). The KID RIY methodology is currently under review by the FCA and different investment trusts are adopting different approaches in the interim, including showing 'n/a' or '0%' thus RIY figures between different investment trusts are not comparable.

ESG

ORIT is classified as a 'dark green' investment under the EU Sustainable Finance Disclosure Regulations (SFDR) as an Article 9 Fund. It defines itself as an impact fund with a core impact objective of accelerating the transition to net zero through its investments.

The key highlights from ORIT's 2024 impact report are:

- Equivalent tCO_2 avoided:297k (2023: 302k)
- Equivalent new trees required to avoid same carbon: 1.5m (2023: 1.5m)
- Equivalent cars off the road required to avoid same carbon: 151k (2023: 153k)
- The equivalent figures for all assets operating at their expected budget are shown below:
- Estimated annual equivalent tCO_2 avoided once fully operational: 383k (2023: 400k)
- Equivalent new trees required to avoid same carbon: 1.9m (2023: 2.0m)
- Equivalent cars off the road required to avoid same carbon: 195k (2023: 203k)

ORIT's objectives are delivered using the team's Performance, Planet, and People framework, which is defined thus:

Performance

Impact Objective: Build and operate a diversified portfolio of renewable energy assets, mitigating the risk of losses through robust governance structures, rigorous due diligence, risk analysis, and asset optimisation activities to deliver investment return resilience.

Planet

Impact Objective: Consider environmental factors to mitigate risks associated with the construction and operation of assets, enhancing environmental potential where possible.

People

Impact Objective: Evaluate social considerations to mitigate risks and promote a 'Just Transition' to clean energy.

ORIT's core impact goals are directly contributing towards a number of the UN's sustainability development goals. The principal ones are Goal 7, affordable and clean energy; Goal 11, sustainable cities and communities, and Goal 13, climate action.

ORIT's annual ESG reports give case studies and measurements of several other impacts it identifies alongside case studies of a number of other impacts achieved and how these map onto the SDGs. Examples include a focus on biodiversity on solar sites, mitigation of carbon emissions in ORIT's construction sites, detailed assessments of supply chains for equipment, and various forms of community engagement in areas where ORIT owns and operates assets.

Disclaimer

This report has been issued by Kepler Partners LLP. **The analyst who has prepared this report is aware that Kepler Partners LLP has a relationship with the company covered in this report and/or a conflict of interest which may impair the objectivity of the research.**

Past performance is not a reliable indicator of future results. The value of investments can fall as well as rise and you may get back less than you invested when you decide to sell your investments. It is strongly recommended that if you are a private investor independent financial advice should be taken before making any investment or financial decision.

Kepler Partners is not authorised to make recommendations to retail clients. This report has been issued by Kepler Partners LLP, is based on factual information only, is solely for information purposes only and any views contained in it must not be construed as investment or tax advice or a recommendation to buy, sell or take any action in relation to any investment.

The information provided on this website is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject Kepler Partners LLP to any registration requirement within such jurisdiction or country. In particular, this website is exclusively for non-US Persons. Persons who access this information are required to inform themselves and to comply with any such restrictions.

The information contained in this website is not intended to constitute, and should not be construed as, investment advice. No representation or warranty, express or implied, is given by any person as to the accuracy or completeness of the information and no responsibility or liability is accepted for the accuracy or sufficiency of any of the information, for any errors, omissions or misstatements, negligent or otherwise. Any views and opinions, whilst given in good faith, are subject to change without notice.

This is not an official confirmation of terms and is not a recommendation, offer or solicitation to buy or sell or take any action in relation to any investment mentioned herein. Any prices or quotations contained herein are indicative only.

Kepler Partners LLP (including its partners, employees and representatives) or a connected person may have positions in or options on the securities detailed in this report, and may buy, sell or offer to purchase or sell such securities from time to time, but will at all times be subject to restrictions imposed by the firm's internal rules. A copy of the firm's Conflict of Interest policy is available on request.

PLEASE SEE ALSO OUR TERMS AND CONDITIONS

Kepler Partners LLP is authorised and regulated by the Financial Conduct Authority (FRN 480590), registered in England and Wales at 70 Conduit Street , London W1S 2GF with registered number OC334771.