

Greencoat Renewables

Efficient capital allocation and increasing demand

Greencoat Renewables' (GRP's) large and diversified pan-European portfolio of renewable energy assets generated net cash of €113.6m in H124 (H123: €125.5m). This equated to gross dividend cover of 3x at end-H124 and a six-month return of 8.6% on its December 2023 net asset value (NAV). NAV per share remained flat at 112.1c, due to less impactful power price movements in the period and strong cash generation offsetting depreciation and dividend payments. GRP's weighted average cost of debt reduced from 3.3% to 3.1%, due to terming out of a more expensive RCF debt and refinancing a new €150m five-year debt facility in February 2024. The company's total aggregate debt stood at €1.3bn at end-H124, being 98% fixed or effectively fixed through interest rate swaps. GRP currently trades at a 16% discount to NAV with a 7.2% dividend yield.

Disciplined capital allocation

GRP continues to be disciplined in its capital allocation strategy, with operating cash flows funding €33m in debt repayments and €25m in share buybacks (c 40% complete at end-H124 with 11.3m shares bought back at a 21% discount to NAV). GRP remains committed to organically deleveraging further. Management expects more than €100m to be returned to shareholders throughout 2024, via its progressive dividend and share buybacks. Management stated that it remains committed to its FY24 dividend target of 6.74c/share (5% increase y-o-y) and has guided a dividend cover of 2.3x in 2024 and an average of 2x between 2024 and 2028, alongside a progressive dividend. The company expects more than €400m in post dividend cash flow over the next five years (to 2028), providing the opportunity for significant reinvestment into the portfolio.

Top 10 pure-play listed European renewables player

GRP ranks within the top 10 largest pure-play listed European renewables companies, with a portfolio value of €2.5bn. At end-H124, it owned and operated 39 renewable energy generation and storage assets, with an additional asset to be acquired under forward sale agreements. The portfolio spans six countries and its largest technology weighting is onshore wind at 75%, followed by offshore wind at 22%, while solar and battery storage make up 2% and 1%, respectively.

Big Tech and AI driving demand

Big Tech and AI continue to drive the increase in demand for clean energy, and corporate offtakers are increasingly looking to secure their long-term clean energy through power purchase agreements (PPA). These green PPA's are typically being seen at premiums to the merchant curve. In H124, GRP capitalised on these trends, signing a 10-year PPA with a leading data centre owner in Ireland, and completing post period the purchase of 50% of an 80MWp solar farm in County Meath, including a 15-year PPA with a leading tech company. GRP continues to proactively manage revenue streams and power price risk, having increased the percentage of contracted revenue within its portfolio to 77% between 2024-28. This should provide investors with further confidence and visibility of GRP's future cash generation, as well as its ability to continue to increase dividends (if management chooses to do so) and proactively manage gearing over the medium term.

Investment trusts

26 September 2024

Price	€0.94	
Market cap	€1.05bn	
NAV*	€1,266m	
<small>*As at 30 June 2024.</small>		
NAV/share	112.1c	
Discount to NAV**	16%	
<small>**Including income at 24 September 2024.</small>		
Yield (at 24 September 2024)	7.2%	
Shares in issue	1.13bn	
Code/ISIN	GRP/IE00BF2NR112	
Primary exchange	ISE	
AIC sector	Renewable Energy Infrastructure	
52-week high/low	€1.04	€0.82
NAV*** high/low	113.0c	111.6c
<small>***Including income.</small>		
Gearing (at 30 June 2024)	51%	

Business description

Greencoat Renewables is a listed renewable energy infrastructure company that invests in European renewable electricity generation and storage assets. The company's aim is to provide investors with an annual dividend that increases progressively while growing the capital value of its investment portfolio in the long term through the reinvestment of excess cash flow and portfolio leverage.

Bull

- Well-positioned to capture growth in European renewable energy as net zero targets accelerate.
- Strong cash generation ability with significantly covered dividend and opportunity for additional organic growth.
- Ability to further capitalise on the increasing demand for clean energy from Big Tech and AI.

Bear

- Current negative investor sentiment surrounding renewables.
- Power price volatility.
- Longer-term debt refinancing risk.

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