

Gresham House Energy Storage Fund

Trading update

Responding to challenging times

Gresham House Energy Storage Fund (GRID) is the largest UK fund investing in utility-scale battery energy storage systems (BESS). A recent sharp decline in gas prices, a 'disappointing' start to the Energy System Operator's (ESO's) new energy trading platform and systemic delays connecting completed projects to the national grid have raised concerns about the revenue generating capacity of the BESS sector. This has placed significant downward pressure on the share prices of GRID and others in the sector. GRID's share price has declined by more than 50% over the past month and is trading at a 67% discount to its last published NAV. A recent trading update by GRID's manager, Ben Guest, provided details of the company's response to these challenging market conditions, while also reiterating confidence in GRID's positive long-term prospects.

The manager believes it is a matter of 'when, not if' ESO resolves teething problems with its new energy trading platform and he expects the general revenue environment to improve with time. Meanwhile, the company has taken steps to ensure it remains cash flow positive during the transitional period. These include a decision to cancel the final dividend payment for FY23 and review the dividend policy for 2024 and beyond. GRID has stated that 'if the current revenue environment endures, it will be challenging to generate the cash required to cover the dividend this year'. As such, the board intends to recalibrate GRID's dividend target for 2024 and future years to better reflect its revenues. A further announcement is due by April.

Guest has also refocused the company's use of capital. He has deferred expansion plans, including an investment in the US-based Project Iliad, although he intends to reconsider this project when market conditions improve. The manager is instead concentrating on commissioning the company's existing 2023 project pipeline. All these projects are completed and ready for connection to the grid. Once this is done, operational capacity is set to rise from 740MW at present to 1,072MW by end-Q324, with the potential to almost double EBITDA, according to the company. Once commissioned, these projects will also be revalued, lifting GRID's NAV.

In addition, work is also underway to increase the duration of several of GRID's already operational projects, which should add a further 340MW to its operational capacity and raise potential earnings from these projects by up to 40% at relatively low cost. The company will also seek to reduce the size of its £335m debt facility to reduce associated fees.

Guest and the board insist that the increasing need for energy storage means the longer-term prospects of the BESS industry, and GRID, remain positive. Perhaps the clearest indication of this conviction is the decision to use the opportunity provided by the sharp share price decline to begin a 'limited' share buyback program. Any such purchases will be 'highly value accretive'.

This flash note will be followed by a more detailed update on these developments and GRID's prospects over the medium term.

Investment trusts
Renewable energy infrastructure

5 February 2024

Price 48.10p
Market cap £275.8m
AUM £837.6m

NAV* 146.08p
Discount to NAV* 67.1%

*At 30 September 2023.

Shares in issue 573.4m

Yield, based on current share price and 2023 dividend** 11.5%

** Dividend policy is under review with details expected to be released before the publication of GRID's annual results in April 2024.

Code/ISIN GRID/GB00BFX3K770

Primary exchange LSE

AIC sector Renewable energy infrastructure

Fund objective

Gresham House Energy Storage Fund seeks to provide investors with an attractive and sustainable dividend over the long term, by investing in a diversified portfolio of utility-scale battery energy storage systems located in the UK and Ireland. In addition, the company seeks to provide investors with capital growth through the reinvestment of net cash generated in excess of the target dividend.

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