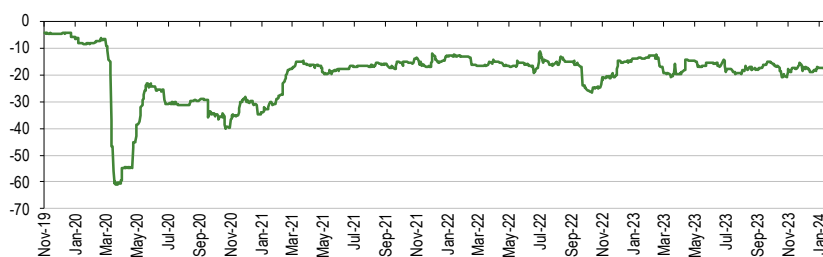


Riverstone Credit Opportunities Income

Continues to deliver an 8–10% dividend yield

Riverstone Credit Opportunities Income (RCOI) reported an FY23 NAV total return (TR) of 6.0%, with continued steady income from its fully invested portfolio, though with some headwinds from the valuation of warrants. RCOI paid three quarterly dividends of 2.0 US cents per share for 9M23, and is therefore on track to deliver at least the lower bound of its targeted dividend yield of 8–10% on its IPO price of US\$1.00. At the current 18.2% discount to NAV, RCOI's last 12-month dividend translates into an annualised dividend yield of c 10%.

RCOI trades at a wide discount to NAV, offering an attractive dividend yield



Source: RCOI. Note: Calculated based on NAV including income.

Playing on net zero transition in the energy sector

Close to 100% of RCOI's investment portfolio consists of senior secured, floating rate loans (with interest rate floors) that are either structured as sustainability-linked loans (which tie loan economics to meeting specific sustainability performance targets) or green loans (used to fund new green energy infrastructure or the conversion of older assets to more sustainable use). The mid-market segment remains underserved by the banking sector, providing good opportunities for direct lenders with specialist knowledge such as RCOI to fill the gap. RCOI is therefore well-placed to benefit from the transition to 'net zero' within the mid-market energy sector.

Successful exit and A&E in December 2023

RCOI highlighted that, based on existing portfolio commitments, the company was nearly fully invested as at end-September 2023. In December, RCOI announced the successful realisation of the Clean Energy Fuels loan, achieving a 14.9% gross internal rate of return (IRR) and a 1.14x gross multiple on invested capital (MOIC). A successful redeployment of the proceeds would facilitate RCOI's sustained income generation potential. We also note that in December 2023, RCOI announced the amendment and extension of the Blackbuck loan, with its economic terms adjusted for an all-in yield to maturity (YTM) of 17%. RCOI's total portfolio was held at a 1.22x MOIC at end-December 2023, slightly above the 1.18x MOIC on its realised investments since inception.

Investment companies

30 January 2024

Price US\$0.87
Market cap US\$79m
NAV* US\$98m

US\$1.27/£
 NAV per share* US\$1.06

*As at 31 December 2023.

Discount to NAV (cum fair) 18.2%

Dividend yield 10.3%

Ordinary shares in issue 90.8m

Code/ISIN RCOI/GB00BJHPS390

Primary exchange LSE Specialist Fund Segment

AIC sector Sector Specialist: Debt

Gross gearing as % portfolio value* 5.4%

*Estimated end-June 2023.

Fund objective

Riverstone Credit Opportunities Income's objective is to generate stable current income and growth in NAV by investing in a diversified portfolio of senior secured loans to mid-market entities predominantly engaged in building infrastructure and providing infrastructure services to generate, transport, store and distribute both renewable and conventional sources of energy, as well as those focused on the transformation of the global energy sector from fossil-based to zero carbon. There is a focus on US companies, but RCOI invests across end markets to provide synergies and hedges to enhance portfolio stability.

Bull points

- Lending niche with barriers to entry allows for favourable pricing.
- RCOI's portfolio is floating rate and therefore captured the recent rise in base rates.
- Significant re-rating potential given wide discount.

Bear points

- The energy market is highly cyclical and economic uncertainty remains elevated.
- RCOI loans to projects that are pre-revenue can conceivably have higher risk.
- Relatively short fund trading history, although RCP has other similar (but private) energy funds with a 2015 inception.

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Riverstone Credit Opportunities Income is a research client of Edison Investment Research Limited

Outperforming peer average over three years

RCOI posted an FY23 NAV TR of 6.0% in US dollar terms (based on unaudited end-December 2023 data). This is below the weighted average all-in coupon across RCOI's portfolio of 12.3% at end-December 2023 (with a weighted average spread of c 700bp), even after accounting for RCOI's ongoing charges. The primary reason for this is the write-down of its Imperium3NY warrants of US\$2.7m (or c 2.7% of RCOI's end-2022 NAV), which at end-December 2023 were valued at nil. Moreover, the valuation of RCOI's investment in Seawolf Water Resources (which is a combination of a first-lien term loan, preferred stock and common equity) was also marked down during the year. Finally, we note that the SOFR rate increased gradually in 2023 from 4.30% at end-2022 to 5.38% at end-2023 and the coupon rate of most of RCOI's loans is reset (based on the prevailing benchmark rate) on a quarterly basis.

RCOI's one-year NAV TR in sterling terms to end-December 2023 was 0.5%, negatively affected by the c 5% y-o-y depreciation of the US dollar against sterling. This is below two out of three UK-listed debt funds we consider most appropriate peers for RCOI (see Exhibit 1). That said, RCOI's three-year NAV TR of 36.2% in sterling terms (c 11% pa) is ahead of the peer average.

Exhibit 1: Selected investment peer group at 29 January 2024* in sterling terms

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 years	Premium/ (discount)	Ongoing charge**	Performance fee	Net gearing	Dividend yield
Riverstone Credit Opportunities	62.5	0.5	36.2	(18.2)	1.5	Yes	100***	10.3
BioPharma Credit	942.8	3.2	39.2	(6.3)	1.1	Yes	100	7.4
GCP Asset Backed Income	293.7	3.7	11.9	(26.4)	1.2	No	105	9.2
VPC Specialty Lending Investments	172.5	(5.6)	17.5	(30.3)	2.1	Yes	124	12.9
Peer average	469.7	0.4	22.9	(21.0)	1.5		110	9.8
Rank	62.5	3	2	2	2		3	2

Source: Morningstar, Edison Investment Research. Note: *Performance to end-December 2023 or latest available NAV (end-November for VPC Specialty Lending Investments and BioPharma Credit, end-September for GCP Asset Backed Income). **Excluding performance fee. RCOI's last 12 months ongoing charge ratio including profit share expenses to end-June 2023 stands at 3.1%. RCOI's investment manager does not charge a base management fee. ***Calculated at the holding level based on the fair value of investments in special purpose vehicles, which had US\$5m in drawn credit and US\$2.8m in cash balances at end-June 2023. TR, total return in sterling terms. Net gearing is total assets less cash and equivalents as a percentage of net assets (100 = ungeared).

Exhibit 2: Discrete performance table

12 months ending	Total share price return (%)	Total NAV return (%)	Morningstar Leverage Loan Index (%)	High Yield Corporate Bond Energy Index (%)	Energy Bond Index (%)
31/12/20	(21.2)	11.0	3.1	0.3	6.1
31/12/21	38.9	4.8	5.2	12.2	3.3
31/12/22	15.4	14.4	(0.8)	(6.2)	(13.6)
31/12/23	4.1	6.0	13.3	11.6	9.5

Source: Refinitiv, Edison Investment Research. Note total returns in US dollar terms.

We note that Riverstone (Riverstone Holdings LLC and its affiliate Riverstone Investment Group) recently entered into a sub-management agreement for all credit vehicles managed by Riverstone (including RCOI) with Breakwall Capital. The latter is a newly formed, Securities and Exchange Commission-regulated Registered Investment Advisor owned and operated by the former RCP team, including Christopher Abbate, Jamie Brodsky and Daniel Flannery. Under this agreement, Riverstone remains the manager of RCOI on the terms of the existing management agreement, with no increase in fee payable by RCOI. Based on our discussion with the management, we understand that RCOI does not have an agreement to invest alongside Breakwall funds at this stage (still, it technically can be a co-investor). Moreover, the RCP II fund's investment period has already ended. We also note that RCOI will be subject to a continuation vote at the AGM this year.

Portfolio held at an average gross MOIC of 1.22x

RCOI's portfolio at end-December 2023 included 10 holdings across infrastructure, infrastructure services and energy transition themes (see Exhibit 3). All these loans are either sustainability-linked or green loans. For a detailed overview of the investments, see our [April update](#) note.

Exhibit 3: RCOI's portfolio at end-December 2023

US\$m Company/project name	Subsector	Commitment date	Cumulative committed capital	Cumulative invested capital	Gross realised capital	Gross unrealised value*	Gross MOIC (x)**	% par value
Caliber	Infrastructure	Aug-19	4.0	4.0	0.6	0.4	0.25	36.1
Imperium3NY***	Energy transition	Apr-21	6.8	5.4	6.7	0.0	1.25	N/A
Blackbuck	Infrastructure	Jun-21	11.5	11.0	5.2	9.7	1.35	103.2
Harland & Wolff	Infrastructure services	Mar-22	14.6	14.6	2.0	18.2	1.39	106.9
Seawolf Water Resources	Infrastructure services	Sep-22	9.0	9.0	0.7	12.1	1.43	N/A****
Epic	Infrastructure	Sep-22	13.9	13.9	2.3	13.9	1.17	99.3
Hoover	Infrastructure services	Nov-22	13.7	13.7	1.6	14.2	1.15	98.3
Max	Infrastructure	Dec-22	5.0	5.0	0.8	5.1	1.17	101.4
Streamline	Infrastructure services	Jun-23	9.9	3.5	0.5	3.6	1.13	99.2
Total		-	88.4	80.1	20.4	77.2	1.22	-

Source: Riverstone Credit Opportunities Income data. Note: *This is similar to the fair value of the investments. **Gross MOIC is the total gross realised and unrealised value as a percentage of invested capital. ***Loan was repaid in April 2022, with the gross unrealised value at end-September 2023 attributable to RCOI's equity stake from warrants. ****The Seawolf investment is a combination of a first-lien term loan, preferred stock and common equity.

Clean Energy Fuels loan fully realised at a gross IRR of 14.9%

In December, RCOI fully realised its sustainability-linked loan investment in Clean Energy Fuels, a Nasdaq-listed company and the largest provider of renewable natural gas (made from organic waste) for the North American transportation market. RCOI originally committed US\$13.9m in December 2022. The exit resulted in a US\$1.9m gross profit, translating into a 14.9% gross IRR and a 1.14x gross MOIC for RCOI.

A&E Blackbuck transaction at an all-in YTM of 17%

In December 2023, RCOI announced the amendment and extension (A&E) of the first ever sustainability-linked loan that it had provided to Blackbuck, a sponsor-backed water infrastructure company focused on providing exploration and production operators with a one-stop shop for all things related to water management, including treatment, gathering, recycling, storage and disposal. RCOI originally made a US\$9.9m investment commitment in June 2021 and subsequently upsized the commitment to US\$11.6m in June 2022 (bringing the total credit facility to US\$57m). As part of the A&E deal, the loan maturity was extended to 31 December 2024 from June 2024 previously. Moreover, the economic terms of the loan were adjusted for an all-in YTM of 17% for RCOI (up from the original 12%). At end-December 2023, RCOI's gross realised and unrealised MOIC on its Blackbuck investment stood at 1.35x. As part of the amendment, the exit premium of 106% was paid, resulting in US\$0.6m in profits distributed to RCOI. A minor US\$0.1m part of the loan was repaid, with the outstanding balance at US\$9.7m at end-December 2023.

Harland & Wolff negotiating a £200m guaranteed loan facility

With respect to other major developments across RCOI's portfolio, we note that Harland & Wolff, a UK-listed infrastructure operator engaged in the development and operation of strategic maritime assets in the UK, announced on 29 December 2023 that it has obtained permission from government ministers to advance negotiations in relation to the proposed £200m guaranteed loan facility with UK Export Finance (UKEF) under its Export Development Guarantee scheme. UKEF was due to appoint an independent third party in January 2024 to work out an appropriate premium over SONIA, while the company planned to firm up the bank syndicate and appoint a lead arranger.

Harland & Wolff does not expect to issue any warrants to the banks or UKEF in conjunction with this facility. Harland & Wolff's directors believe that, based on the company's existing cash balance and expected 2024 cash flows from existing contracts, it has sufficient funds to meet its working capital requirements until the new loan facility is completed. The company's share price increased by 17% on 29 December, though these gains were given up subsequently. RCOI had US\$18.2m of gross unrealised investments at end-December 2023 related to Harland & Wolff (c 24% of RCOI's unrealised portfolio) in the form of a certified green loan and detachable share warrants.

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