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GCP Infrastructure Investments

Investment trusts

12 February 2024

Key takeaways from capital markets day

GCP Infrastructure Investments (GCP) has a mature, diverse and operational portfolio of 51 UK infrastructure assets with a total asset value of £1.1bn and a net asset value (NAV) of £953m, two-thirds of which is focused on renewables, and 41% of investments by value have some form of inflation protection. The portfolio is also well-positioned to benefit from the global trends of decarbonisation, energy security and population dynamics. The fund's January capital markets day saw the board and management reconfirm the capital reallocation policy for the coming year, which consists of asset disposals and refinancing to position the fund in the strongest possible position.

Capital allocation strategy for 2024

GCP's capital allocation strategy for 2024 of asset disposals and refinancing is focused on reducing the fund's leverage position (£104m currently drawn from the fund's revolving credit facility), returning capital to investors (minimum capital return of £50m in 2024 to shareholders, potentially via share buybacks or tender offer) and rebalancing the portfolio (away from equity towards debt). The total value of the potential asset disposals is c £500m, however the fund has set a base case target of £150m before the end of 2024. The four sectors in which the fund will most actively pursue asset disposals are supported living (£112m total portfolio exposure), onshore wind (£185m total portfolio exposure), rooftop solar (£102m total portfolio exposure) and anaerobic digestion (£99m total portfolio exposure) The overall aim of GCP's capital re-allocation programme is to cycle out sectors within its portfolio (supported living), reduce NAV volatility to electricity prices, shorten duration (supported living) and refocus the portfolio's position on debt.

Upside of recycling capital from asset disposals

The fund is trading at a 35% discount to NAV, the biggest discount in its 13-year history. This largely materialised in 2023 and mirrors the wider investment trust landscape, where discounts have emerged in a rising interest rate environment as investors have been drawn to money market funds and UK gilts over traditional investment trusts. There is potential upside therefore in repositioning the fund through the disposal of assets and then reinvesting capital by buying back stock while the fund is trading at such a significant discount to NAV. As an illustration, even if the select assets were sold at a 20% discount to NAV, there would still be significant upside in recycling the capital, given the fund is trading at a 35% discount.

Towards a debt focused portfolio in 2024

The fund trades at a c 10% dividend yield (1.23x covered for the 12 months to 30 September 2023) and offers a potential additional return of 54% if its discount to NAV were to close. On the date of the CMD, GCP highlighted the discount rate implied by the stock price is 18.8%, well above the applied NAV discount rate of 7.7% – for a portfolio that is returning 7.9% and increasingly shifting towards wholly debt investments, this seems surprising.

Price	**70p**
Market cap	**£610m**
NAV*	**£953m**

*31 December 2023

Share details

NAV/share		110p
Discount to NAV*		35%

*Including income.

Yield		10%
Code/ISIN		GCP/JE00B6173J15
Primary exchange		LSE
AIC sector		Infrastructure
52-week high/low	101p	60p
NAV* high/low	114p	96p

*Including income

Fund description

GCP Infrastructure invests in UK infrastructure assets that benefit from public-sector-backed cash flows, with a focus on debt. The fund's objectives are to provide shareholders with regular, sustained, long-term dividends and to preserve the capital value of its infrastructure assets over the long term. The company has set a dividend target of 7.0p per share for the current financial year. GCP pays attractive risk-adjusted income, while being diversified across a wide range of infrastructure sectors, focusing on the preservation of capital. GCP has had a strong ESG focus since IPO of investing in social infrastructure, as well as creating a significant positive environmental impact.

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