

Foresight Solar Fund

Optimising capital allocation

Foresight Solar Fund (FSFL) celebrated its 10-year anniversary of listing on the London Stock Exchange with decade-high cash distributions from assets of £120.4m in its FY23 results (year end 31 December). FY23 also saw FSFL's divestment programme come to fruition with the sale of a 50% stake in its Spanish Lorca portfolio at a 21% premium to its holding value. The proceeds of this divestment, along with free cash, were used to pay down the fund's variable rate debt via its revolving credit facility by £40m and to continue to deliver on the share buyback programme, with half of the £40m being deployed in 2023. FSFL released guidance of a 6% y-o-y increase in its dividend (33% dividend growth since IPO) for FY24 at 8p/share (FY23: 7.55p/share) with dividend cover of 1.5x (FY23: 1.6x). There is significant headroom in the dividend cover to operate further out, even in a falling power price environment.

FSFL generated a record amount (more than 1TWh) of renewable energy in FY23. However, this was 1.9% below budget due primarily to its Australian portfolio production, which was 9% below expectations because of unexpectedly high economic curtailment. Its Spanish portfolio was marginally (1.5%) below budget due to lower-than-expected irradiation, while its UK portfolio was 0.7% over budget for the year due to higher-than-expected irradiation in the UK.

2023 saw the start of FSFL's buildout of a proprietary development pipeline that highlights the fund's focus on total returns, a reliable yield and long-term NAV growth. The first investment in this pipeline was the acquisition of the rights to a 467MWp portfolio of development-stage solar projects in Spain. The first project is expected to reach the ready to build (RTB) stage in late 2024. Early-stage development can bring relatively high returns for de-risking early-stage assets with limited initial capital. FSFL is targeting 2–3GW across different geographies to provide a steady stream of RTB assets, with a significant number of these projects intended to be divested at higher multiples, potentially delivering gains and releasing cash for investments in new opportunities.

The sale of several large Renewables Obligation Certificate-backed solar portfolios in the UK provides a reliable benchmark for FSFL's assets and what look like conservative management valuations. The latest sale of a UK solar asset indicates a value per megawatt roughly 15% above the valuation FSFL uses on its UK portfolio of £1.17m/MWh. This comes alongside the sale of two other UK solar portfolios in 2023, both at greater valuations than FSFL's valuation per megawatt hour. We determine that there is a noticeable contrast between these private market transaction values, at premiums to holding values, compared to the market valuation of FSFL (23% discount to NAV). FSFL's FY24 dividend target represents an 8.8% yield at the current share price with management forecasting 1.5x coverage.

Investment trusts
Renewable energy infrastructure

14 March 2024

Price 90.9p
Market cap £529m
NAV* £697.7m

NAV/share* 118.4p

*As at 31 December 2023

Discount to NAV** 23.2%

**Including income. At 12 March 2024.

Yield 8.3%

Shares in issue 589m

Code/ISIN FSFL/JE00BD3QJR5

Primary exchange LSE

AIC sector Renewable Energy Infrastructure

52-week high/low 113.8p 84.0p

NAV** high/low 126.5p 95.6p

**Including income.

Total gearing*** 38.8%

***At 31 December 2023 (total long-term debt/GAV).

Fund objective

Foresight Solar Fund's (FSFL's) investment objective is to provide investors with a sustainable and progressive quarterly dividend underpinned by investments in a geographically diverse portfolio of assets. FSFL aims to preserve and, where possible, enhance capital value. It acquires large-scale solar power plants, identifying solar opportunities in the UK and overseas markets (to 25% of gross asset value). FSFL can also invest in battery energy storage systems (BSS) up to a limit of 10% of gross asset value (GAV) and in solar or BSS assets in development stage up to 5% of GAV.

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