NEXTENERGY SOLAR FUND
(NESF LN)

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Research
Adam Forsyth
adam.forsyth@longspur.com
+44 (0) 131 357 6770

Distribution
Adam Robertson
adam.robertson@longspur.com
+44 (0) 203 940 6602

Price (p)	**109.60**
Shares in issue (m)	590
Mkt Cap (£m)	646
Net debt (£m)	200
EV (£m)	846
BVPS (p)	121.7

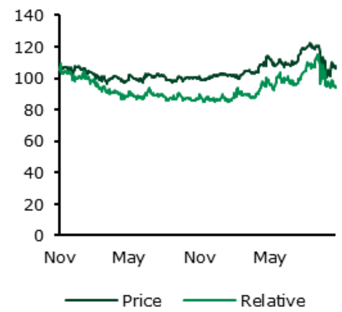
Share price performance	
1m	6.4%
3m	-7.9%
12m	10.7%
12 m high/low	123/95.4
Ave daily vol (30D)	1,356,514

Shareholders	
Old Mutual Plc	14.1%
Artemis	10.8%
Valu-Trac	9.2%
Prudential Plc	8.8%
Legal & General	6.3%
Hargreaves Lansd'n	6.0%
Vt Gravis Funds	4.9%
Gov't Of Sweden	4.8%
Investec Plc	3.6%
Fundrock Partners	3.2%
Total for top 10	71.8%

Next news Q2NAV Q4

Business description

Solar generation investment fund



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The UK windfall tax on older renewable generation assets has been set at 45% of profit above a power price of £75/MWh. While slightly higher than some market expectations, we do not see the impact on the NESF dividend as critical and the removal of uncertainty over the extent of the taxation is beneficial in our view.

Windfall tax at 45% of profit over £75/MWh

The autumn statement includes a windfall tax of 45% on the profits of electricity generation companies, based on revenue above a power price of £75/MWh. Costs are set at a fixed allowance of £10m per corporate group. The Levy will not apply to electricity generated under Contracts for Difference (CfDs) or from gas generators, pumped hydro or battery storage. The tax will become effective from 1 January 2023 and is described at temporary with a backstop date of 31 March 2028. For renewables this is mainly targeting those on the Renewables Obligation (RO) where c.£50/MWh of revenue is generated from the sale of Renewable Obligation Certificates (ROCs) and the rest is from power market sales. Revenue from the sale of the ROCs themselves will not be taxed but profits on the latter where the price is above £75/MWh will now be taxed at 45%. There is some further potential cost allowance where there are exceptional costs, but no further details have been given. There is also no mention of allowances for investment although this has been suggested.

Impact not onerous

NextEnergy Solar Fund (NESF) last updated on its hedging in its quarterly NAV statement on 22 August, showing hedged pricing at £73/MWh in FY24 for 74% of output, £86/MWh in FY 25 for 42% and £118/MWh in FY 26 for 2%. The company has also signalled in its full year presentation that the blended average forecast power curve for solar capture prices was £105.2/MWh for the period 2022-2026. For 2027 to 2041 the average price of £47.8/MWh is well below the tax hurdle rate. Based on these numbers we expect FY 24 to see taxable revenue below the £10m allowance level and so generate no excess tax. For FY 25 based on the above pricings, we estimate the tax could be c. £6m and for FY 26 c.£13m and fall thereafter with power prices, quite possibly disappearing altogether. Higher power prices will still benefit result in a net benefit to the company even if they attract the new tax. Against £66m of cash income in FY 22 and a strong cash dividend cover we do not see these levels as threatening to the dividend.

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Longspur Research
10 Castle Street,
Edinburgh. EH2 3AT
UK

Longspur Capital
20 North Audley Street,
London. W1K 6WE
UK