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Research

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Price (p) **109.80**

Shares in issue (m)	590
Mkt Cap (£m)	648
Net debt (£m)	200
EV (£m)	648
BVPS (p)	120.9

Share price performance

1m	-1.1%
3m	-1.1%
12m	7.6%
12 m high/low	123/95.4
Ave daily vol (30D)	793,309

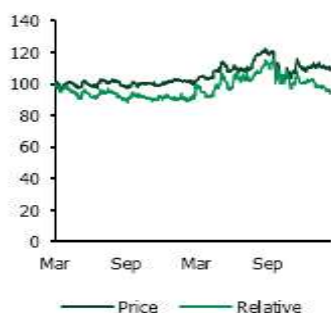
Shareholders

Om Residual UK Ltd	14.1%
Valu-Trac	9.0%
Prudential Plc	8.7%
Artemis Investment	7.9%
Hargreaves Lansd'n	6.2%
Investec Plc	4.7%
Fundrock Partners	4.6%
Legal & General	4.0%
Privium Fund Man	3.6%
Abrdn Plc	3.0%
Total for top 10	65.7%

Next news Finals Q3

Business description

Solar generation investment fund



NAV REFLECTS CURRENT MARKET

NESF has seen its NAV drop as it increases its discount rate to reflect current market conditions. The dividend cover remains comfortable with a 5% annual increase continuing to be targeted for the full year. Storage remains a key area of opportunity and the fund is consulting authority to increase the limit in storage investment to 25% of GAV.

NAV discount rate increased

NextEnergy Solar Fund (NESF) has issued its NAV and operational update with a NAV at 31 December 2022 of 120.9p down from 122.9p at 30 September. The key change is an increase in the discount rate by 0.5% in response to market conditions. Partly offsetting this has been a change in inflation assumptions reflecting latest third party data. The fund has also updated its power price forecasts and has removed the discounts applied to the unhedged proportion of portfolio power prices. These have been replaced by the expected impact of the Electricity Generator Levy (EGL). This means that the EGL is now fully priced in.

Hedging protects dividend cover

Looking forward the fund has now hedged 94% of FY 23 UK generation at £88/MWh, 74% of FY 24 at £73/MWh, 44% of FY 25 at £90/MWh and 13% of FY 26 at £147/MWh. This, in addition to the c.50% of budgeted revenues from ROCs and FITs, allows the company to say that it has a high degree of comfort around forward revenue projections underpinning dividend cover for the current financial year and also to express confidence in its ability to provide investors with a well-covered dividend going forward. A third interim dividend comes in at 1.88p and the full year target dividend remains at 7.52p. This represents a 5% annual increase and is forecast to be covered by cash c.1.5x.

Adviser has been consulting on storage

Total operating capacity remains at 865MW, and the fund now has exclusivity on or owns the rights to the majority of a pipeline of c.£500m of UK and international solar and storage assets. This includes development rights for a 250MW storage project, one of the largest standalone batteries in the UK. The investment adviser has consulted with investors on increasing the investment policy limit on storage from 10% of Gross Asset Value to 25%. A further update is expected in the near term. We think that increasing renewables penetration will continue to provide opportunities for storage. While storage trading spreads may fall back from the highs of 2022, we still see 2021 spread levels as extremely attractive and a good guide to the market going forward.

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