



Bluefield Solar Income Fund

Investment companies | Update | 1 July 2021

Transformational deal

Bluefield Solar Income Fund (BSIF)'s ambition to expand beyond its narrow focus on solar looks to be close to fruition, with the announcement of a deal to buy a portfolio of 109 wind turbines, located across the UK. This is the first in a series of transactions aimed at diversifying BSIF's asset base. The target is to have 25% of its portfolio in assets other than solar within 18 months.

BSIF's debt facilities are almost fully utilised. To finance the deal, BSIF is turning to investors and has published a prospectus in connection with an initial placing, open offer, offer for subscription, and a subsequent placing programme. In the first instance, BSIF hopes to raise gross proceeds of up to £150m by issuing up to about 127.1m shares at 118p. If shareholders approve, this and subsequent issues could more than double the equity base of the company. The managers have identified a substantial pipeline of potential acquisitions, and BSIF should have a more diversified base of assets, technologies and revenue streams a couple of years from now.

Evolving beyond large-scale UK solar assets

BSIF aims to pay shareholders an attractive return, principally in the form of regular sector-leading income distributions. Historically, this has been achieved by investing in a portfolio of large-scale UK-based solar-energy infrastructure assets. BSIF can now augment its solar portfolio with minority investments in other renewable technologies and energy storage assets.

12m ended	Share price TR (%)	NAV total return (%)	Earnings per share (pence)	Dividend declared (pence)	Target dividend (pence)
30/06/16	(2.6)	3.0	7.6	7.25	7.07
30/06/17	23.5	19.2	8.3	7.25	7.18
30/06/18	11.4	8.8	9.7	7.43	7.43
30/06/19	19.9	5.4	11.0	8.31	7.68
30/06/20	5.1	12.8	12.0	7.90	7.90
31/12/20*	2.0*	1.9*	4.6*	4.00*	8.00**

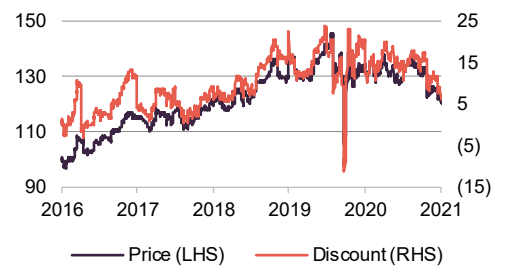
Source: Morningstar, Marten & Co *interim results period. For total NAV and share price returns, returns are over six months to 31 December 2020. **FY21 target

Sector	Renewable infrastructure
Ticker	BSIF LN
Base currency	GBP
Price	121.4p
NAV	113.1p
Premium/(discount)	7.3%
Yield	6.6%

Note 1) Morningstar estimate. Last published NAV was 113.1p as at 31 March 2021.

Share price and discount

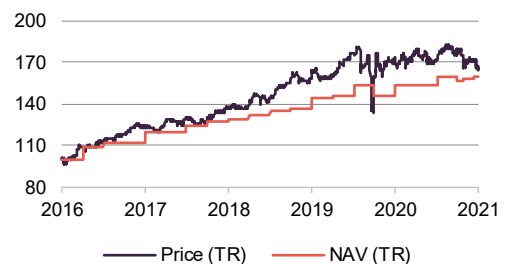
Time period 30/06/2016 to 30/06/2021



Source: Morningstar, Marten & Co

Performance over five years

Time period 30/06/2016 to 30/06/2021



Source: Morningstar, Marten & Co



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Domicile	Guernsey
Inception date	12 July 2013
Manager	Bluefield Partners
Market cap	494.1m
Shares outstanding	407.0m
Daily vol. (1-yr. avg.)	476,681 shares
Net gearing	80.3%¹

Note 1) equivalent to LTV of 44.6%

[Click here for our last annual overview note](#)



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[Click here for BSIF's peer group analysis](#)



Analysts

Matthew Read
mr@martendandco.com

James Carthew
jc@martendandco.com

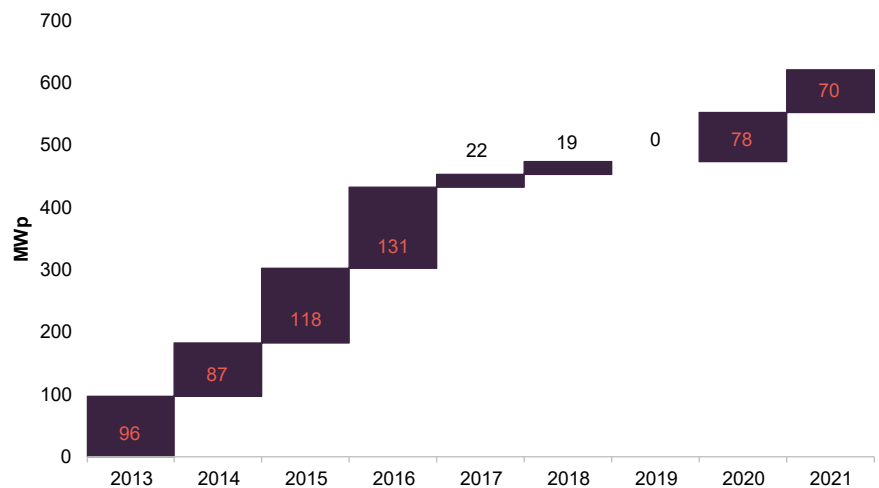
Jayna Rana
jr@martenandco.com



Executing on its diversification plan

As Figure 1 shows, there was a significant slowing of the expansion of BSIF's portfolio over the period from 2017–2019, reflecting the manager's belief that a dearth of new projects was contributing to price inflation for solar assets.

Figure 1: BSIF capacity growth since listing

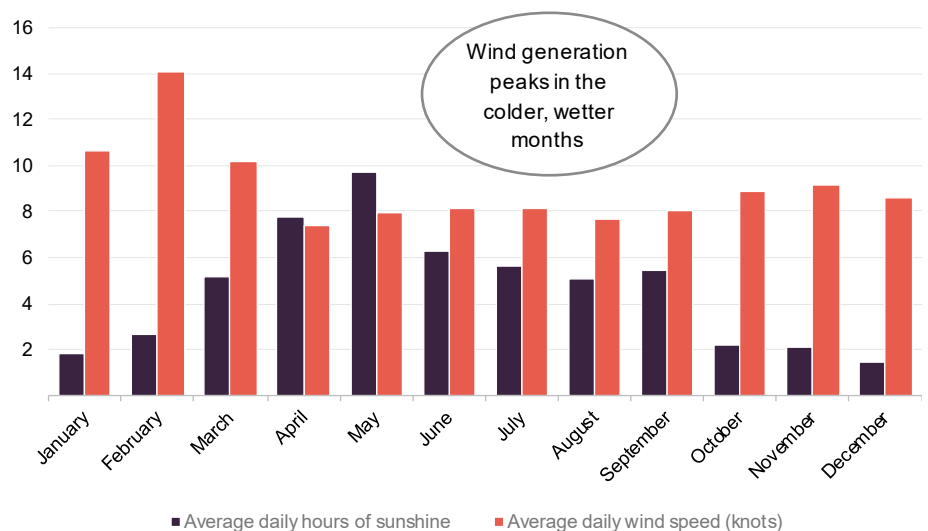


Source: Bluefield Solar Income Fund

Since shareholders approved BSIF's revised investment objective last July, the managers have added further solar PV assets.

Now BSIF has announced its intention to acquire a portfolio of 109 wind turbines. This is the first step in a strategic plan to diversify BSIF's portfolio away from 100% solar.

Figure 2: Average daily sunshine hours and wind speed over 2020



Source: Department of Business, Energy & Industrial Strategy - 25 February 2021 report, Marten & Co

Wind expert Baiju Devani joined the investment adviser in July 2020

As discussed in our last note, in the UK, weather patterns mean that wind assets complement solar. In addition, the regulated revenues attached to such assets lower the overall portfolio's exposure to power prices.

We also noted that in July 2020, Bluefield Partners recruited Baiju Devani, an experienced wind professional, to take the lead as the investment director overseeing wind acquisitions.

The proposed acquisition

BSIF has entered into a conditional sale and purchase agreement to acquire a portfolio of 109 small-scale onshore wind turbines located across the UK with a generating capacity of 12.59MW. The aggregate consideration is approximately £60m (including working capital) and the vendor is Arena Capital Partners Limited. The deal is conditional upon BSIF securing the necessary financing to complete the acquisition (see page 6).

Figure 3: The Arena Capital portfolio



Source: Bluefield Solar Income Fund

Figure 3 shows the geographic distribution of the Arena Capital portfolio. The 109 UK onshore wind turbines are distributed as follows: England (62), Northern Ireland (29), Scotland (11) and Wales (7). The geographic diversification helps improve the average generation for the portfolio (there is less exposure to localised variations in wind speeds).

Figure 3 also highlights the manufacturers of the turbines. Endurance, which made the majority of these, was a Canadian manufacturer of wind turbines that went out of business in 2016. Bluefield has reassured analysts that spare parts are readily available for these turbines.

Small-scale wind turbines have not been targeted by BSIF's listed peers, and the managers feel that this has helped BSIF secure a deal to buy these assets at an attractive price.

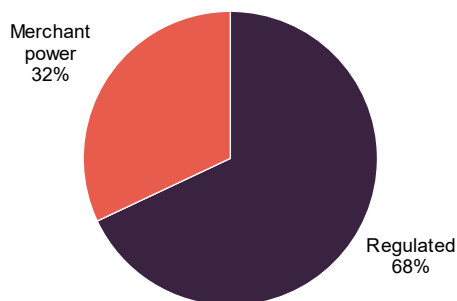
The in-house expertise that Bluefield has assembled ahead of this deal gives the manager comfort that it is well-placed to optimise the revenue from this portfolio. Two O&M contractors – Earthwill and Wind Energy Partnerships – will handle that aspect. However, the asset management function will move in-house.

The adviser says that the attraction of the deal is heightened by the opportunity to re-power 17 of the Northern Irish wind turbines in the portfolio, replacing the existing kit with larger and more efficient turbines from EWT. This requires the company to secure the necessary planning, regulatory and construction consents. Consents have already been received in respect of five of the wind turbines, and two EWT turbines have already been erected. In the event that all 17 turbines were to be re-powered, the generating capacity of the portfolio is expected to increase by approximately 40% (28.9MWh to 41.8MWh). Re-powering all 17 turbines would cost about £35m. As such, the total potential investment in this wind portfolio could increase to approximately £95m.

One benefit of the deal is that around 92% of the revenue derived from these turbines comes from subsidies. The projects within England, Scotland and Wales are all FIT-accredited, whilst those in Northern Ireland have been accredited under its Renewable Obligation Scheme with a tariff of four Renewable Obligation Certificates (ROC)s. The projects benefit from subsidies for 20 years from accreditation, and so last until 2034– 2037.

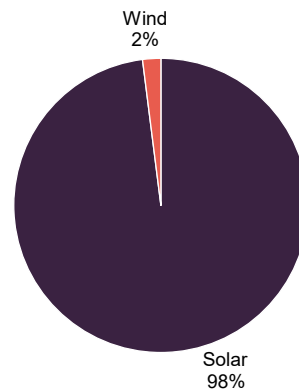
The remainder of the income is derived from power sales, sold under 15-year power purchase agreements with Power NI that have optionality of either receiving a floating or fixed price for power.

Figure 4: Revenue split post transaction



Source: Bluefield Solar Income Fund

Figure 5: Technology split post transaction (generating capacity)



Source: Bluefield Solar Income Fund

The proportion of power generated by the wind portfolio should be higher than the capacity figure suggests – closer to 5%, according to the manager. This reflects the difference in average generation per unit of capacity between wind and solar.

Financing this and future deals

The Arena Capital portfolio is debt-free and has price tag of £65m. BSIF's revolving credit facility is currently £90m drawn, versus a maximum of £100m, and BSIF has gearing close to 80% with an LTV of about 45%. This gives it limited headroom to expand its borrowings at present. Consequently, the acquisition of the Arena Capital portfolio is conditional on BSIF raising additional equity finance.

On 29 June 2021, BSIF published a prospectus in connection with a proposed fundraise. Subject to shareholder approval, the directors would have the power to issue up to 500m new ordinary shares. If approved, this power is set to expire on 28 June 2022.

In the first instance, BSIF plans to issue up to 127,118,644 new ordinary shares via an initial placing, open offer and offer for subscription. Approximately 81.4m shares would be reserved for existing shareholders under the open offer. These shareholders would be entitled to subscribe for one new share for every five shares that they already hold. The balance of the new shares available will be allocated to the initial placing, offer for subscription, and/or an excess application facility.

The issue price for the current fundraising round has been set at 118p. This is a premium of approximately 8.1% to the last published NAV (as at 31 March 2021, less the payment of the second interim dividend of 2.0p paid to shareholders on the register as at 14 May 2021, and the expected third interim dividend of 2.0p) and a discount of approximately 3.3% to the closing share price on 25 June 2021.

Any new shares issued at this time will not be entitled to the third quarterly interim dividend of 2p.

Subsequent issues under the placing programme would be carried out at a price that represents a premium to net asset value.

Figure 6: Expected timetable (extract – see page 40 of the prospectus)

Event	
Record date for the open offer	Close of business on 25 June 2021
EGM to approve the proposals	9:00am on 15 July 2021
Latest time for applications under the open offer and offer for subscription	11:00am on 15 July 2021
Latest time for applications under the initial placing	3:00pm on 20 July 2021
Expected date of admission of the ordinary shares issued in relation to the initial issue	8:00am on 23 July 2021
Placing programme opens	23 July 2021
Placing programme closes	28 June 2022

Source: Bluefield Solar Income Fund

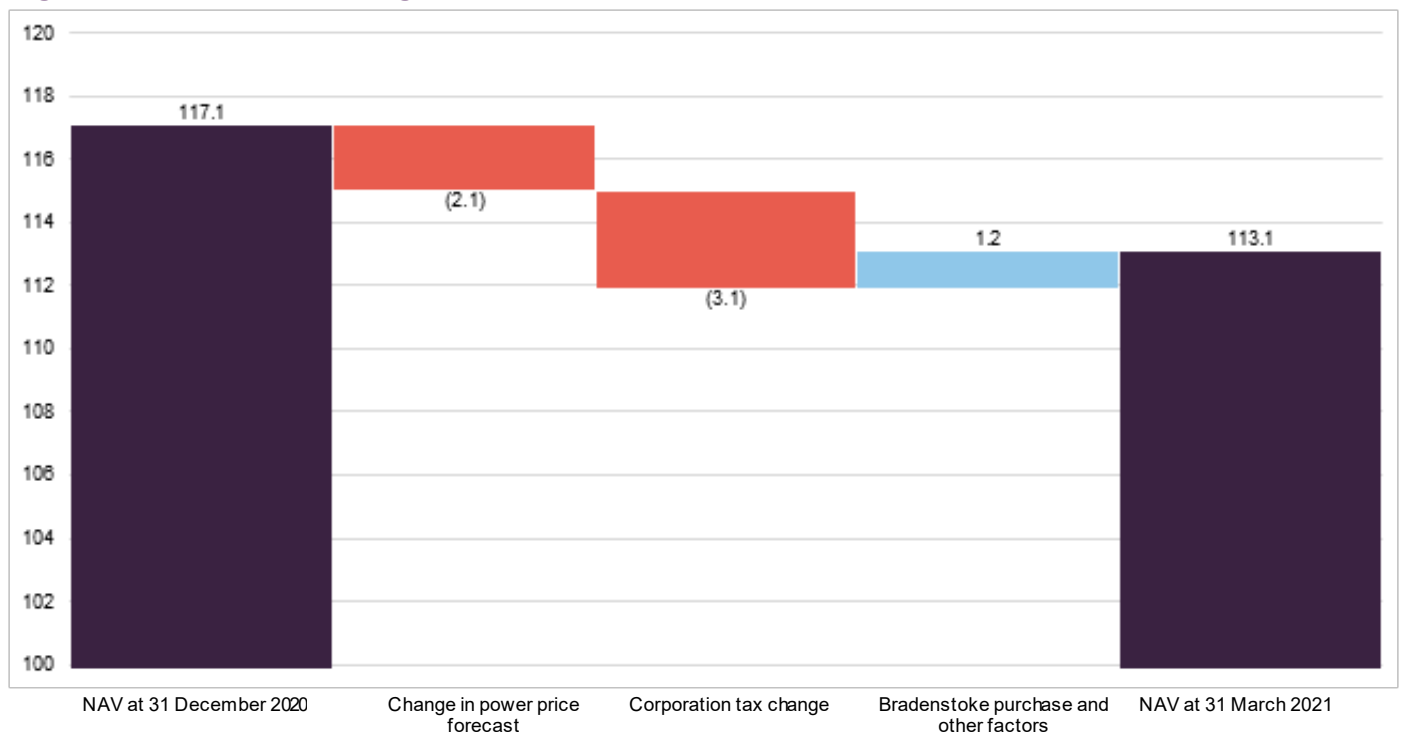
Readers should note that the details of the share issue, including the risk factors that investors should take into consideration, are more fully described in the

prospectus published by Bluefield Solar Income Fund on 29 June 2021 and we urge readers to familiarise themselves with this before making any investment decision. The approval of the prospectus by the Financial Conduct Authority should not be understood as an endorsement by the Financial Conduct Authority of the securities offered. If you have any doubts about the suitability of an investment you should seek professional advice.

Performance

Since we last published, BSIF has released its end-March NAV. Over the first three months of 2021, BSIF's NAV fell from 117.12p to 113.14p.

Figure 7: Drivers of change in BSIF's NAV over the three months to 31 March 2021



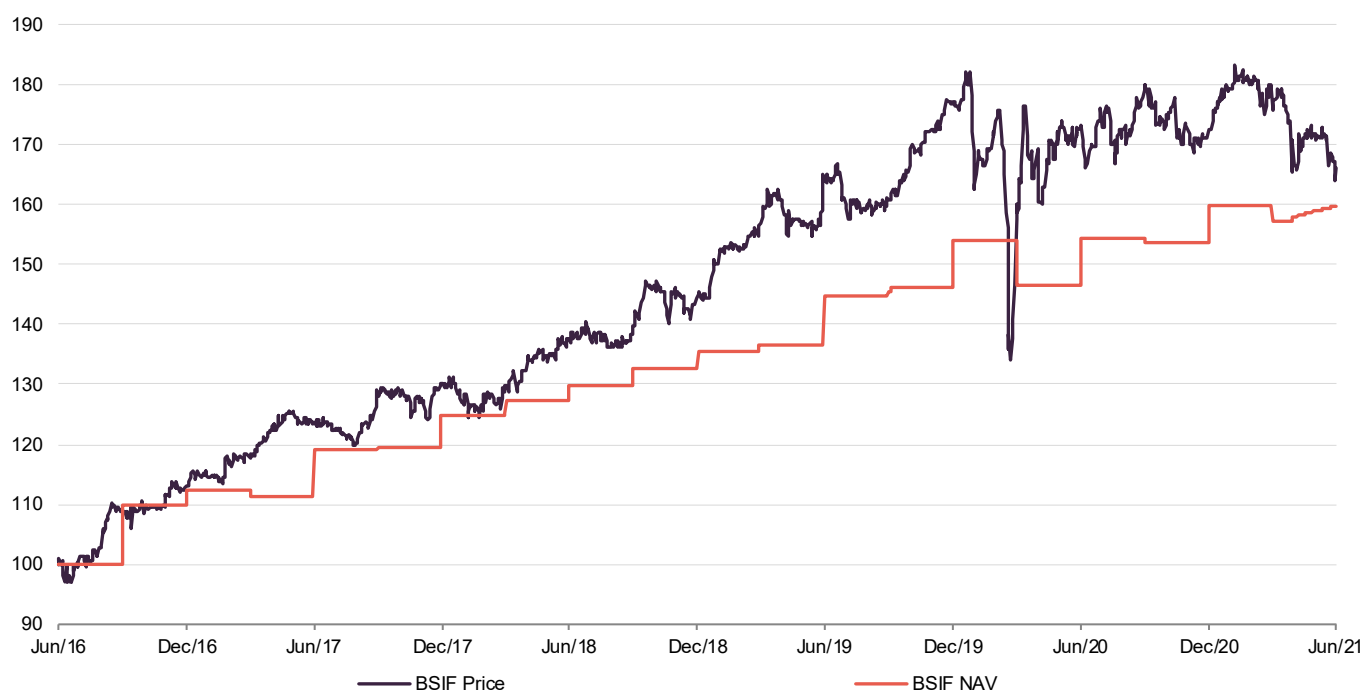
Source: BSIF, Marten & Co.

Compared to December 2020, the blended power price curves used by the BSIF have increased on average by 7% over the next four years (reflecting a faster-than-expected recovery in short-term power prices) but have decreased by 6% from 2025 until 2050. Combined, these reduced the NAV by 2.1p during the quarter, according to BSIF.

Factoring in the UK corporation tax hike to 25%, that is due to take effect from 2023, had the biggest impact over the quarter taking 3.1p off of the NAV, using BSIF's figures.

On a positive note, the acquisition of Bradenstoke (discussed in our last note), recent power price fixes, generation in the period to 31 March 2021 and a roll forward of portfolio working capital and operating assumptions all added 1.2p to the NAV on BSIF's numbers.

Figure 8: BSIF NAV and share price total return over five years to 30 June 2021



Source: Morningstar, Marten & Co

Figure 9: BSIF-cumulative total return performance over periods ending 30 June 2021

	3 months (%)	6 months (%)	1 year (%)	3 years (%)	5 years (%)
BSIF NAV	1.7	(0.0)	3.6	23.1	59.8
BSIF price return	(5.5)	(3.7)	(4.1)	20.8	66.2
Peer group median NAV	1.7	1.2	4.9	21.5	47.5
Peer group median price	0.5	(1.8)	(1.3)	19.3	42.2

Source: Morningstar, Marten & Co

Peer group comparison

You can access up-to-date information on BSIF and its peers on the [QuotedData](#) website

There are now 18 companies in the AIC's renewable energy sector. As we did in our last note, for the purposes of constructing a peer group, we have excluded the three funds focused on energy efficiency.

Historically, Foresight Solar and NextEnergy Solar have been BSIF's closest comparators. Due to BSIF continuing to focus the majority of its investments in solar, they should continue to be a good benchmark reference for the company.

Figure 10: AIC renewable energy infrastructure sector comparison table, as at 30 June 2021

	Market cap (£m)	Premium/ (discount) (%)	Yield (%)	Ongoing charge (%)	NAV total return performance over periods ending 30 June 2021			
					6 m. (%)	1 year (%)	3 years (%)	5 years (%)
Bluefield Solar Income Fund	494	7.3	6.6	1.12	(0.0)	3.6	23.1	59.8
Aquila European Renewables	303	10.1	4.5	1.28	(0.8)	1.1	n/a	n/a
Downing Renewables & Infra.	122	1.9	3.0	-	n/a	n/a	n/a	n/a
Ecofin US Renewables Infra.	91	1.9	1.6	-	n/a	n/a	n/a	n/a
Foresight Solar Fund	603	7.8	7.1	1.18	(0.5)	3.0	6.6	25.6
Gore Street Energy Storage Fund	314	12.3	6.2	3.48	3.6	12.8	23.3	n/a
Greencoat Renewables	748	17.5	5.2	1.22	(2.2)	(1.7)	19.9	n/a
Greencoat UK Wind	2,501	3.5	5.7	1.09	3.0	8.0	27.5	56.9
Gresham House Energy Storage	421	13.3	5.8	2.15	7.1	16.4	n/a	n/a
JLEN Environmental Assets	601	8.4	6.8	1.29	(0.4)	5.3	13.3	31.9
NextEnergy Solar Ord	594	2.2	7.0	1.13	1.7	7.8	15.4	38.2
Octopus Renewables Infra.	366	7.4	4.8	1.31	1.4	4.4	n/a	n/a
The Renewables Infra. Group	2,692	11.0	5.3	0.91	3.0	8.3	31.1	61.7
US Solar Fund	244	5.0	5.4	1.49	1.0	(7.2)	n/a	n/a
VH Global Sustainable Energy	242	1.9	1.0	-	n/a	n/a	n/a	n/a
BSIF rank	7/14	9/14	4/14	3/11	8/12	8/12	4/8	2/6
Sector median	421	7.4	5.4	1.3	1.2	4.9	21.5	47.5

Source: Morningstar, Marten & Co

Dividend

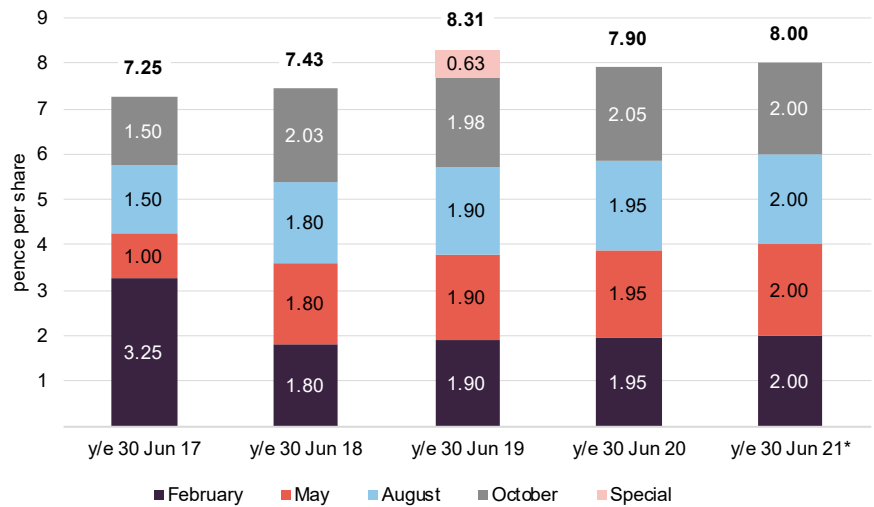
BSIF has consistently delivered the highest dividend on a pence per share basis

BSIF's recent dividend history is shown in Figure 21, along with the target for a total distribution of 8.0p for the year to 30 June 2021. BSIF has consistently delivered the highest dividend on a pence per share basis.

BSIF pays quarterly dividends. For a given financial year, the first interim dividend is paid in February, with the second, third and fourth interims paid in May, August and October/November respectively (dividends are usually declared the month before payment).

The full year dividend target is 8.0p for the financial year ending 30 June 2021 (2020: 7.9 pence). The manager says that this is expected to be covered by earnings after debt amortisation.

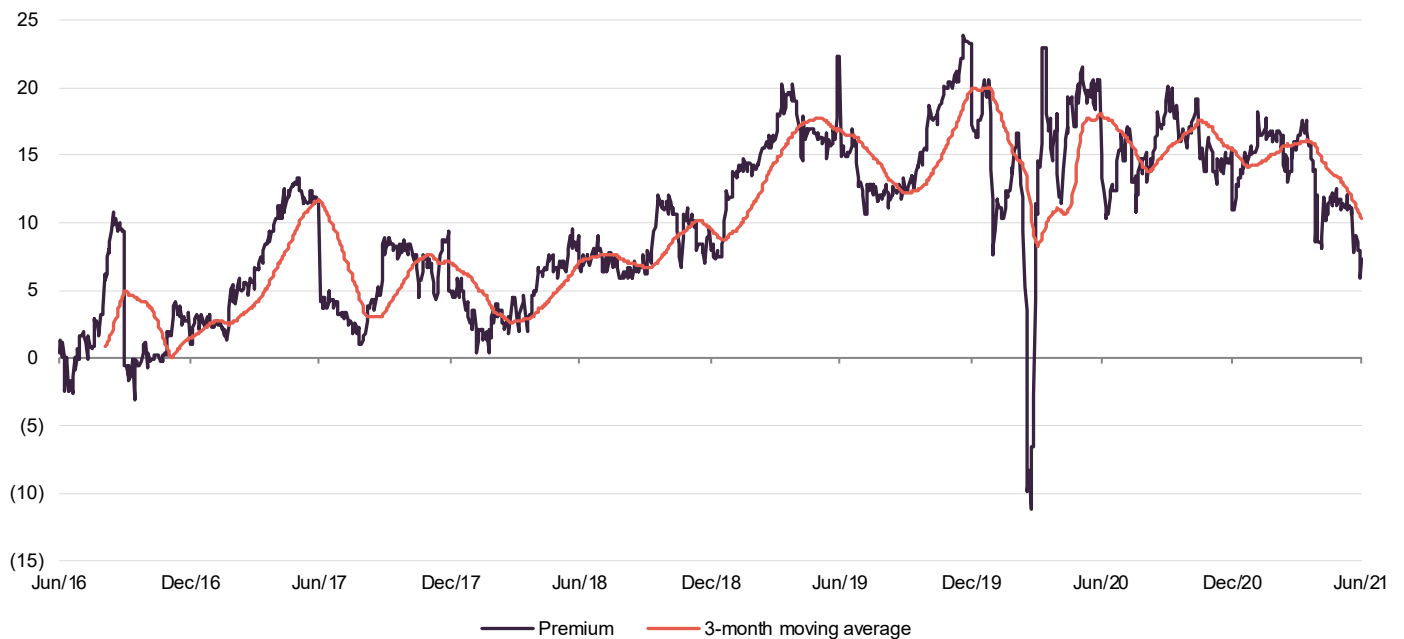
Figure 11: BSIF's dividend history and target for FY21



Source: Bluefield Solar Income Fund, Marten & Co

Premium/(discount)

Figure 12: BSIF and peer group premium/(discount) (%)



Source: Morningstar, Marten & Co

Over the 12 months ended 30 June 2021, BSIF's premium ranged between 6.0% and 20.1% and averaged 14.6%. At 30 June, the premium was towards the bottom end of that range.

Fund profile

Stable regulated sterling income from a portfolio of large-scale UK solar assets soon to be complemented by wind

BSIF is a Guernsey-domiciled sterling fund, with a premium main-market listing on the London Stock Exchange (LSE). Since its launch on 12 July 2013, it has focused primarily on acquiring and managing a diversified portfolio of large-scale (utility-scale) UK-based solar energy assets, to generate renewable energy for periods of typically 25 years or longer. BSIF owns and operates one of the UK's largest, diversified portfolios of solar assets, with a combined installed power capacity of over 600MWp.

BSIF's primary objective is to deliver to its shareholders stable, long-term sterling income via quarterly dividends. The majority of the group's revenue streams are regulated and non-correlated to the UK energy market.

The underlying investments are held in SPVs which, in turn, are held through Bluefield SIF Investments Limited.

Bluefield Partners LLP – an experienced investment adviser

Bluefield Partners LLP was established in 2009 as an investment adviser to companies and funds investing in solar-energy infrastructure. It has been BSIF's investment adviser since launch.

Bluefield Partners says that its team has been involved in over £2.5bn of solar photovoltaic funds and/or transactions in both the UK and Europe since 2008. This includes over £1.1bn in the UK since December 2011.

Previous publications

We refer readers interested in further information about BSIF and solar photovoltaic assets to our initiation note, *“Walking on sunshine”*, or our annual overview note *“On the offensive”*, published on 20 April 2021.

BSIF is designed for investors looking for a high level of income with regular distributions.

Further information regarding BSIF can be found at:
www.bluefieldsif.com



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**123a Kings Road, London SW3 4PL
0203 691 9430**

www.QuotedData.com

Registered in England & Wales number 07981621,
2nd Floor Heathmans House,
19 Heathmans Road, London SW6 4TJ

Edward Marten (em@martenandco.com)

David McFadyen (dm@martenandco.com)

Alistair Harkness (ah@martenandco.com)

INVESTMENT COMPANY RESEARCH:

Matthew Read (mr@martenandco.com)

James Carthew (jc@martenandco.com)

Jayna Rana (jr@martenandco.com)

Richard Williams (rw@martenandco.com)