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BY MARTEN & CO
PROFESSIONAL

GCP Infrastructure

Investment companies | Update | 05 August 2024

Crystallising unrealised value

GCP Infrastructure Investments Ltd (GCP) had a difficult 2023, as the infrastructure sector dealt with rising interest rates and stubborn inflation. However, 2024 brought an improving economic outlook, the prospect of a reversal in interest rate policy, and – for GCP's shareholders – a highly attractive yield, solid portfolio execution, and the introduction of a capital recycling programme. So far, this programme has allowed the company to significantly reduce leverage and begin returning capital to shareholders. It has also enabled GCP to start the process of restructuring the portfolio to take advantage of an increasingly attractive investment environment, reduce its exposure to merchant power prices, and exit some of its legacy positions. GCP remains well positioned to capitalise on this opportunity thanks to the ongoing resilience of its cash flows over the last few years. This has provided the foundation for the current capital programme and leaves the adviser in a strong position to rebalance the portfolio. Whilst the company continues to trade at a stubborn discount of 26%, its fortunes look much more promising.

Public-sector-backed, long-term cashflows

GCP aims to provide shareholders with sustained, long-term distributions and to preserve capital by generating exposure primarily to UK infrastructure debt or similar assets and predictable long-term cashflows.

12 months ended	Share price TR (%)	NAV total return (%)	Earnings[1] per share (pence)	Adjusted[2] EPS (pence)	Dividend per share (pence)
31/07/2020	(2.2)	2.7	(0.08)	7.33	7.6
31/07//2021	(2.9)	2.4	7.08	6.95	7.0
31/07/2022	14.0	19.4	15.88	7.12	7.0
31/07/2023	(29.2)	4.4	3.50	7.90	7.0
31/07/2024[3]	22.4	2.4	1.14	2.91	7.0

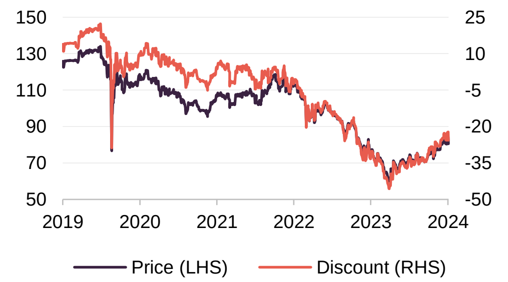
Source: Morningstar. Note 1) EPS figures taken from 30 September each year. Note 2) Adjusted earnings per share removes the impact of unrealised movements in fair value through profit and loss. Note 3) Earnings for the six-month period to 31 March 2024

Sector	Infrastructure
Ticker	GCP LN
Base currency	GBP
Price	80.5p
NAV[1]	108.28
Premium/(discount)	(25.6%)
Yield[2]	8.7%

Note 1) Morningstar estimate, last published 107.58p as at 30 June 2024. 2) Dividend forecast 7.0p per share

Share price and premium/(discount)

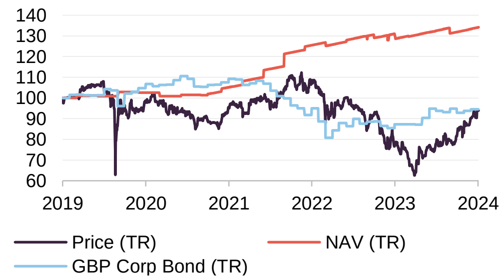
Time period 31/07/2019 to 02/08/2024



Source: Morningstar, Marten & Co

Performance over five years

Time period 31/07/2019 to 31/07/2024



Source: Morningstar, Marten & Co

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Contents

Domicile	Jersey
Inception date	22 July 2010
Investment adviser	Philip Kent
Market cap	698.59m
Shares outstanding	867.81m
Daily vol. (1-yr. avg.)	1.679m shares
Net gearing	11.1%

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Click to provide feedback to the company

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Fund profile

Regular, sustainable, long-term income

GCP Infrastructure Investments Limited (GCP) is a Jersey-incorporated, closed-ended investment company whose shares are traded on the main market of the London Stock Exchange. GCP aims to generate a regular, sustainable, long-term income while preserving investors' capital. The fund's income is derived from loaning money predominantly at fixed rates to entities which derive their revenue – or a substantial portion of it – from UK public-sector-backed cashflows. Wherever it can, it tries to secure an element of inflation-protection.

Renewable energy projects, PFI/PPP-type assets and specialist supported social housing

In practice, GCP is diversified across a range of different infrastructure sectors, although its focus has shifted more towards renewable energy infrastructure over the last few years. It has exposure to renewable energy projects (where revenue is part subsidy and part linked to sales of power), PFI/PPP-type assets (whose revenue is predominantly based on the availability of the asset) and specialist supported social housing (where local authorities are renting specially-adapted residential accommodation for tenants with special needs).

Interim results and second quarter update

GCP is trading at a weighted average annualised yield of 8.85%.

On 20 June 2024, GCP published its interim results for the six-month period to 31 March 2024. The company's NAV total return was 1.2%, while the shareholder total return was 12.5%, as the discount narrowed to 32.8%. This has since improved to 25.6% at the time of publication. GCP does not compare its returns with those of a benchmark index, but the sterling corporate bond index is a useful comparison, and this returned 8.6% over the same period.

Dividends continued to run at an annualised pace of 7.0p per share, so that GCP is trading at a weighted average annualised yield of 8.85%. On the fund's adjusted earnings basis, calculated on interest accruals, dividend cover was 1.0 times (down from 1.1x at the end of the 31 March 2023). On a cash cover basis this ratio is much higher. Profit was £9.9m (down from £25.8m). The decrease reflects the impact of lower electricity prices and increases to discount rates applied by the independent valuation agent. In part, this fall is due to the normalisation of electricity prices which have inflated profits in recent years.

Operationally, the main development during the period was progress within GCP's capital recycling programme. This has been the focus for the adviser over the past 18 months, as the company looks to reduce the portfolio's leverage and improve its risk adjusted returns. It is hoped that these measures will help demonstrate the underlying value of its shares, which, as we have noted frequently, have been trading at a discount that is clearly not a fair reflection of the value provided by the GCP portfolio.

Promisingly, the adviser's efforts, in addition to an improving economic outlook in the UK, have begun to have a positive effect, with shares up strongly so far this year.

Since our last note, GCP has also replaced its previous £190m revolving credit facility with a new £150m facility with AIB, Lloyds Bank, Clydesdale Bank (trading as Virgin Money) and Mizuho Bank. The new facility has a three-year term and was refinanced on similar terms to the previous RCF, with the most notable amendment being the introduction of additional flexibility in utilisations and repayments to allow the company to enhance its working capital management.

Attribution and performance

Figure 1: Positive factors affecting HY2024 performance

	Impact (£m)	Impact (pence)
Tax computations	1.1	0.13
Actual performance	0.9	0.10
Total	2.0	0.23

Source: GCP Infrastructure Investments

As Figure 1 shows, positive contributions to NAV were limited to tax adjustments and higher-than-expected renewable generation. This is a further reflection of the adviser's focus on capital recycling as the fund seeks to reposition itself for further growth.

Figure 2: Negative factors affecting HY2024 performance

	Impact (£m)	Impact (pence)
Power price movements	(13.5)	(1.56)
Increase in discount rates	(5.4)	(0.62)
Inflation movements	(3.4)	(0.39)
Onshore wind asset outage	(2.0)	(0.23)
Other downward movements	(3.6)	(0.41)
Total	(27.9)	(3.21)

Source: GCP Infrastructure Investments

Faling electricity prices had the largest impact on the downside

Falling electricity prices had the largest impact on the downside. However, it is important to note that the UK energy market is emerging from several years of unusually high volatility and prices remain well above historical averages. Over the last 18 months, this has provided strong cash flow generation for the GCP portfolio.

The company continues to make progress on reducing its exposure to electricity price volatility, as evidenced by the recent sale of its interest in Blackcraig Wind Farm (discussed on page 5). In addition, where possible, the company continues to fix prices under power purchase agreements and hedge electricity prices.

Ongoing increases to discount rates have also continued to weigh on the NAV as have inflation adjustments, most notably from updates to the OBR inflation forecast following the 2024 Spring budget. Inflation, which has remained relatively high over the period, has begun to fall and is expected to sit around the 2% target rate for the rest of the year. Whilst it has not impacted operational performance, lower inflation projections have reduced the cash expected to be generated by the company's loans and therefore the associated valuation has been reduced.

Second quarter update

On 26 July 2024, the company provided an update for the three months to 30 June 2024. The NAV was virtually unchanged, dropping 0.04 pence per ordinary share to 107.58p.

Positive contributions included the c.0.2p uplift from the Blackcraig disposal and an uplift in forecast electricity prices, driven by higher power prices forecast in the short-term, which led to increasing forecast cash distributions, contributing c.0.45p. This was offset by increases to discount rates, as advised by the company's independent valuation agent, which led to a reduction of c.0.6p.

The company also announced a dividend of 1.75p for the period from 1 April 2024 to 30 June 2024. This is in line with the company's annual dividend target of 7p. The dividend will be paid on 9 September 2024 to holders of ordinary shares recorded on the register as at the close of business on 9 August 2024.

Capital recycling programme & Blackcraig Wind Farm

As we have discussed in detail in previous notes, the past 18-24 months have been a period of consolidation for GCP Infrastructure as the adviser looks to restructure the portfolio to capitalise on the structural changes we are seeing across the economy. As such, it has been a quiet period in terms of active portfolio development, with the focus instead on capital reallocation

> The disposal of the Blackcraig windfarm occurred at a 6.4% premium

The company has continued to target its previous goal of releasing £150m (roughly 15% of the portfolio) to rebalance sector exposures, apply funds towards a material reduction in the RCF, and facilitate a return of at least £50m in capital to shareholders before the end of 2024.

The first major step in this process has been achieved with the disposal of GCP's interest in loan notes secured against Blackcraig Wind Farm which was announced on 26 April 2024. The disposal occurred at a 6.4% premium to the valuation of the project as at 31 March 2024, generating net cash proceeds of c. £31m.

Importantly, the premium provides ongoing validation of GCP's NAV and was also notable in that it reduces the company's equity like exposure and its NAV volatility in relation to power prices – the original senior secured loan notes in the Blackcraig project were rolled into an equity-like interest in July 2018.

Capital deployment

The proceeds of the Blackcraig sale, plus a further cash payment of £10m, have been used to prepay drawings under the company's revolving credit facility, reducing the net debt position to c.£51.3m. This reflects the immediate priority of the adviser, which is to reduce the leverage of the portfolio. It is expected that over the coming quarters, several more disposals will be announced, with the hope that the RCF balance can be reduced to zero.

> The net debt position has now been reduced to c.£51.3m

Whilst this is the focus in the near term, the adviser continues to balance debt reduction with its stated ambition of returning £50m to shareholders with the potential for share buybacks, which totalled £10.6m over the past 12 months, and other shareholder friendly actions such as tender offers and special dividends.

The adviser remains conscious that further buybacks may do little to move the discount and would reduce the size of the trust – decreasing liquidity and perhaps deterring some of its target investors – so this remains a delicate balancing act. Additional corporate actions will be discussed over the next 12 months as the company frees up cash with the natural amortisation of loans and further disposals.

The adviser continues to assess new investment opportunities. Prevailing economic conditions have created an attractive environment to rebalance the portfolio, and there exists a wealth of lending opportunities particularly relating to renewable energy developments which GCP is well positioned to capitalise on. Given the current interest rate environment, new investments should offer a better risk/reward profile than was previously available. The environment will also allow the adviser to operate in the growing non-bank lending market, securing opportunities to lend at the same level of risk for higher returns, or to invest in more senior loans for similar returns.

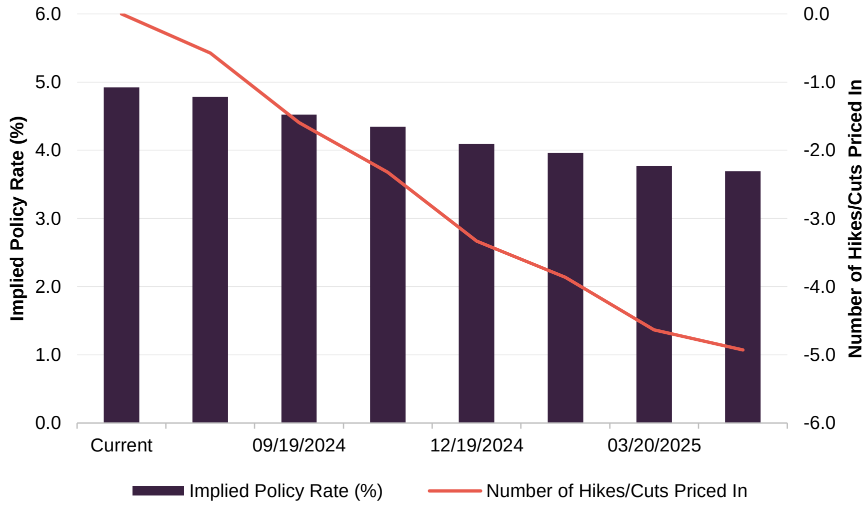
Market backdrop

Higher interest rates have weighed heavily on the infrastructure sector

Rising interest rates have had an outsized effect on the infrastructure sector, which is typically characterised by high upfront capital requirements and stable long-term cashflows. As we have made clear across our recent notes, a de-rating of the sector has certainly been justified; however, in many cases, including that of GCP, the extent of the sell-off as gone well past the mechanical impact of rising rates. This is evidenced by historically wide discounts across the sector (see page 14). While we have begun to see these narrow in recent months, discounts remain at extreme levels, providing an attractive opportunity for both investors and companies such as GCP who are able to capitalise on these dislocations across the market.

The path of interest rates continues to be a major driver of performance in the short term, and as the Bank of England begins to ease monetary policy, the relative attractiveness of the sector is expected to improve. As Figure 4 shows, markets are pricing in around five cuts over the next 12 months in the UK, forecasting an implied rate around 3.6% down from a peak of 5.2%. The first of these was announced on 1 August, with the Monetary Policy Committee voting to cut the bank’s key rate by a quarter of a percentage point to 5%. While the announcement was anticipated, it remains a cautious move given ongoing inflation risks, reflected by the split vote from the committee.

Figure 3: UK implied overnight rate & number of cuts



Source: Bloomberg

> The expectation of easier monetary policy has helped drive a period of positive performance for GCP

The expectation of easier monetary policy has helped drive a period of positive performance for GCP, with shares up over 14% in the last six months. Supporting this re-rating is the composition of the GCP portfolio, which has continued to generate strong earnings thanks to its regulated and contracted cashflows, which account for almost two thirds of the fund. This stability has allowed GCP to maintain its balance sheet strength despite the deterioration in macroeconomic conditions, and leaves it well placed to capitalise on its pipeline of investments going forward.

This opportunity is made more attractive due to the tailwinds driving investment towards the renewable infrastructure sector, which the adviser has identified as a key area of focus. As we have noted previously, we continue to see a considerable disconnect between the government's stated aims for infrastructure investment and what is actually being built. The Committee for Climate Change has expressed concerns about the pace of change required to meet the UK's legally binding net zero targets. In the short term, this is likely to support the price of renewable energy sold by the company's existing portfolio of borrowers, and it should create further investment opportunities for the company going forward.

Political Stability

The recent UK elections have also provided additional support with the hope that a new government can help the UK emerge from over a decade of poor economic performance following the 2007-09 financial crisis. This was made worse by the impact of Brexit (which has cost the UK's economy around £140bn according to one estimate) and the disastrous mini budget. Labour's pro-growth political agenda appears to have been well received, with signs that capital is beginning to return to the UK. However, the main source of optimism is around political stability, which has been severely lacking in recent years.

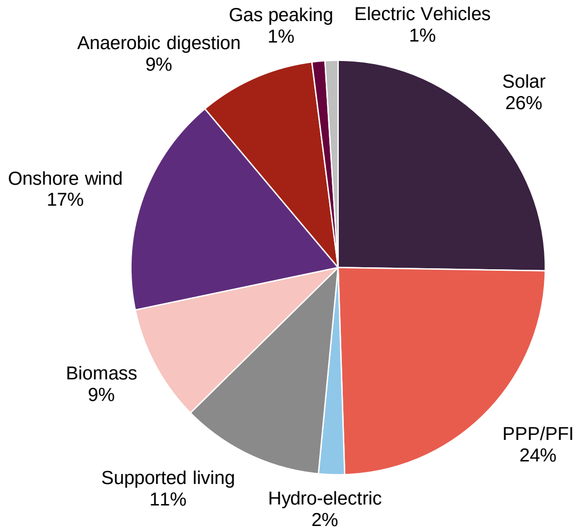
The new government has flagged underinvestment in infrastructure as a key problem for the country and has expressed a willingness to encourage the use of private capital to address much-needed investment. Commentators have begun to discuss the potential for a reimagined version of PFI – which could open up substantial new investment opportunities for GCP.

Portfolio

As of 31 March 2024, there were 51 investments in GCP's portfolio (including the Blackcraig Wind Farm assets with the sale occurring after financial year end). Approximately 1% of the portfolio was exposed to assets in their construction phase.

The average annualised portfolio yield over the financial year was 8.85%, and the portfolio had a weighted average life of 10 years.

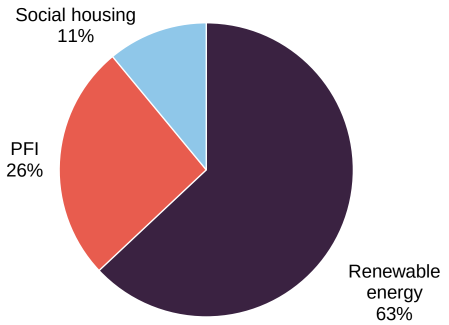
Figure 4: Split of the portfolio at 31 March 2024



Source: GCP Infrastructure Investments

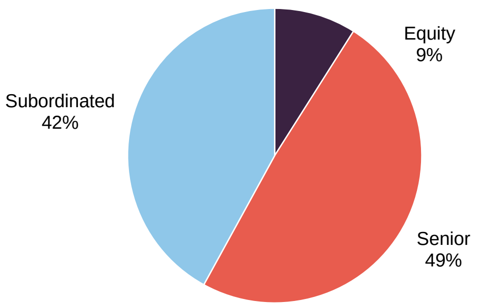
No new investments have been made in the last six months, with the adviser focusing instead on its capital recycling programme.

Figure 5: Sector allocation at 31 March 2024



Source: GCP Infrastructure Investments

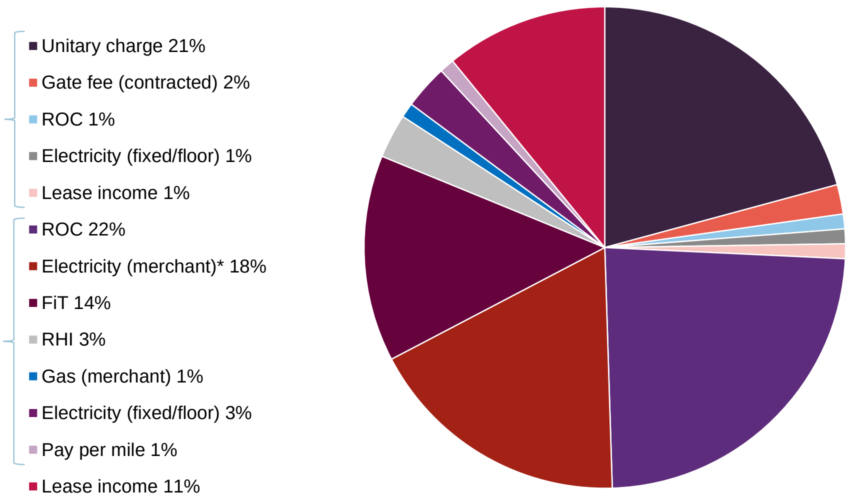
Figure 6: Security allocation at 31 March 2024



Source: GCP Infrastructure Investments

As noted, the adviser views renewable energy infrastructure as a key area of focus and going forward, the rebalancing of the portfolio through the capital reallocation policy is targeting a reduction in social housing and equity-like exposures.

Figure 7: GCP sources of income as at 31 March 2024



Source: GCP Infrastructure Investments. Note 1) does not include the sale of Blackcraig Wind Farm which occurred post period end.

Top 10 investments

The list of GCP's top 10 largest investments has remained the same since we last published, although there have been some small changes in weighting.

Figure 8: GCP's 10-largest investments as at 31 March 2024

	% of total assets 31/03/24	Cashflow type	Project type
Cardale PFI	11.8	Unitary charge	PFI/PPP
Gravis Solar 1	9.5	ROC/FiT	Commercial solar
GCP Programme Funding S14	4.8	ROC/RHI/Merchant	Biomass
GCP Bridge Holdings	4.6	ROC/PPA	Renewables – onshore wind
GCP Programme Funding S3	4.4	ROC/PPA	Biomass
Gravis Asset Holdings H	4.4	ROC/RHI	Anaerobic Digestion
GCP Programme Funding S10	3.8	Lease	Supported Living
GCP Biomass 2	3.8	ROC/PPA	Biomass
GCP Green Energy 1	3.5	ROC/PPA	Commercial solar/onshore wind
Gravis Asset Holdings I	4.4	ROC/PPA	Renewables – onshore wind

Source: GCP Infrastructure Investment

Figure 9: Top 10 revenue counterparties

Firm	% of total portfolio
Ecotricity Limited	8.7
Statkraft Markets GmbH	8.6
Viridian Energy Supply	8.4
Office of Gas and Electricity Markets	6.7
Npower Limited	6.2
Smartestenergy Limited	4.7
Total Gas & Energy Limited	4.6
Bespoke Supportive Tenancies Limited	4.3
Good Energy Limited	4.2
Gloucestershire County Council	4.0

Source: GCP Infrastructure Investments

Figure 10: Top 10 project service providers

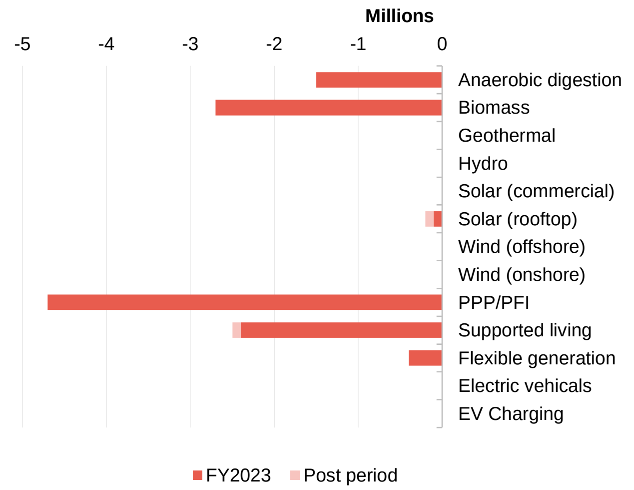
Firm	% of total portfolio
WPO UK Services Limited	21.0
PSH Operations Limited	13.0
Vestas Celtic Wind Technology Limited	11.3
Solar Maintenance Services Limited	9.7
A Shade Greener Maintenance	8.7
2G Energy Limited	5.9
Atlantic Biogas Ltd	4.6
Pentair	4.6
Thyson	4.6
Cobalt Energy Limited	4.1

Source: GCP Infrastructure Investments

Recent investment activity

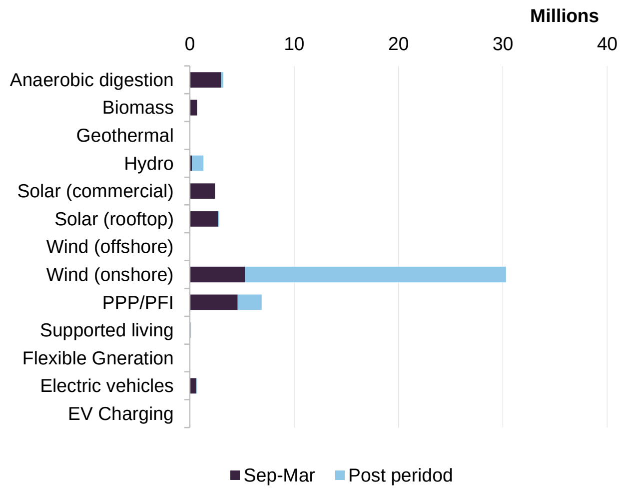
As noted, no new loans have been made in the six months to 31 March 2024. During the period, advances to existing borrowers totalled £12.3m, in line with GCP's contractual obligations. Loan repayments totalled £19.5m from renewables and PPP/PFI projects. Post-period-end, the company made further advances of £0.2m and received scheduled repayments of £4.1m and unscheduled repayments of £24.7m giving a net repayment position of £28.8m.

Figure 11: Outflows (investments)



Source: Gravis Capital Partners

Figure 12: Inflows (repayments)



Source: Gravis Capital Partners

Conservative assumptions

Figure 13: Valuation assumptions as at 31 March 2024

	GCP's approach	Most conservative	Potential impact on GCP's NAV (pence)	Least conservative
Electricity prices	Futures prices for three years and four-quarter average long-term.	**AFRY Q1 Low-Central 2024**	(3.55) 6.88	**Aurora Q1 2024**
Capture prices (wind, solar)	Asset-specific curve applied to each project	**Higher Capture prices**	(1.02) 4.53	**No capture prices**
Asset lives	Lesser of planning, lease, and technical life (20 to 25 years)	**Contractual limitations**	2.49	**Asset life of 40 years (solar) and 30 years (wind)**
Indexation	OBR short term, 2.5% RPI and 2.0% CPI long term	**2.5% RPI and 2% CPI long term**	0.32	**0.5% increase in inflation forecasts**
Taxes	Long-term corporation tax assumption of 25%	**Long-term corporation tax at 25%**	1.13	**Short-term corporate tax assumption of 25% then 19% thereafter**

Source: GCP Infrastructure Investments

Figure 13 summarises the key assumptions used in forecasting cash flows from renewable assets in which the company is invested, and the range of assumptions that the investment adviser observes in the market. GCP's advisers traditionally take a conversative approach, with the chart highlighting alternative, more aggressive valuation assumptions that could be taken. The net effect of this is that, were GCP to assume the most conservative assumptions in every category, the end-March NAV of 109.84p would be reduced to 105.27p. By contrast, were GCP to assume the least conservative assumptions in each category, the NAV would have been 125.19p.

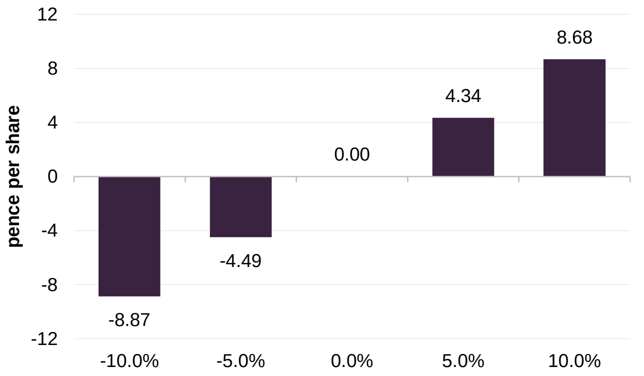
Such an approach is admirable as it reduces the likelihood and severity of any unexpected shocks to GCP's NAV, e.g. a sharp reversal in wholesale gas prices. It also raises the possibility of further NAV uplifts from portfolio disposals, such as we saw with the Blackcraig wind farm disposal. Note that valuation metrics do not affect either the dividend pay-out or the share price yield.

Sensitivities

The investment adviser also provides a sensitivity analysis for its cash flows. Figures 14 and 15 show the impact of changes in power prices and changes in its base case inflation forecast.

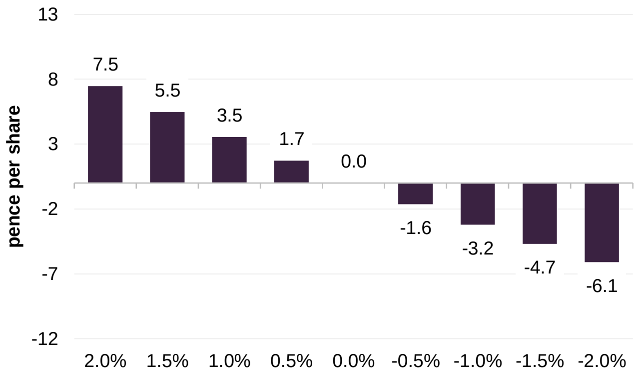
As noted, one of the main areas of focus for GCP's capital recycling programme is reducing the impact of power price volatility on its cash flows and NAV. As such, we expect the figures highlighted in Figure 14 to reduce materially going forward.

Figure 14: Impact of change in forecast electricity prices



Source: GCP Infrastructure Investments

Figure 15: NAV impact associated with a movement in inflation



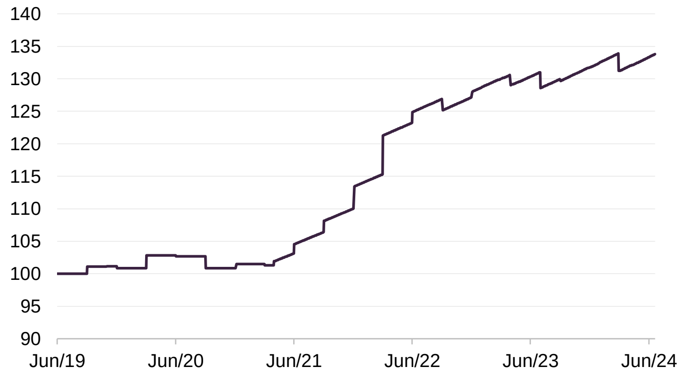
Source: GCP Infrastructure Investments

Performance

As Figure 16 shows, GCP's NAV total return has continued to grow despite the challenging market environment. The NAV rallied strongly on the back of rising power prices through 2021 and 2022, and whilst these have moderated, they remain well above post-COVID levels.

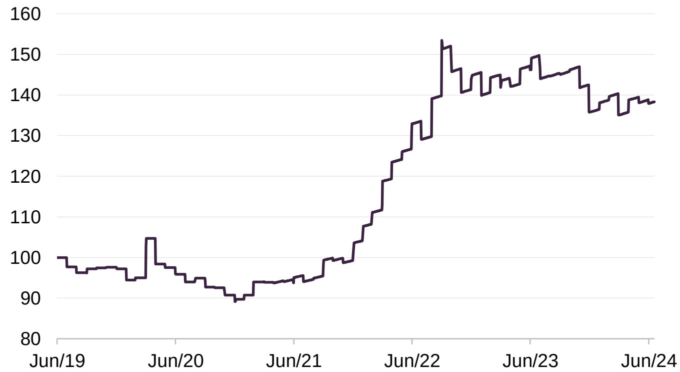
Figure 17 shows the performance of the fund compared to the sterling corporate bond index. This figure provides another illustration of the tangible returns generated by the GCP portfolio above direct market comparables. Returns have moderated slightly as global bonds have rallied on the back of falling inflation; however, as Figure 18 highlights, GCP's returns remain well in excess of the index over three- and five-year periods. We expect that these dynamics are also likely to be beneficial for the company's share price going forward.

Figure 16: GCP NAV total return



Source: Morningstar, Marten & Co

Figure 17: GCP NAV total return performance relative to sterling corporate bond performance



Source: Morningstar, Marten & Co

One of the more reassuring aspects of GCP's performance over the past 12-18 months has been the ongoing NAV growth, which has remained strong despite wide-ranging macroeconomic headwinds impacting the infrastructure sector and the broader market. Much of this resilience is thanks to the quality of the company's cash flows, with almost two-thirds of GCP's investments regulated or contracted, de-risking returns through highly visible and increasingly stable earnings. This structure has provided the foundation for the company's current capital programs and leaves the adviser in a strong position to rebalance the portfolio when it does begin to make new investments.

Figure 18: Cumulative total return performance over periods ending 31 July 2024

	3 months (%)	6 months (%)	1 year (%)	3 years (%)	5 years (%)
GCP share price	12.0	17.4	22.4	(1.2)	(6.1)
GCP NAV	1.6	1.1	2.3	27.5	34.1
Sterling corporate bonds	1.7	0.7	8.3	(13.5)	(5.5)

Source: Morningstar, Bloomberg, Marten & Co

Peer group

Up-to-date information on GCP and its peers is available on the QuotedData website

GCP sits within the AIC's infrastructure sector, which is made up of three funds that invest predominantly in public/private partnership project equity (BBGI, HICL and International Public Partnerships), two funds that have more revenue exposure towards demand driven assets (3i Infrastructure and Pantheon Infrastructure), two digital infrastructure funds (Cordiant Digital Infrastructure and Digital 9 Infrastructure) and one fund (Sequoia Economic Infrastructure, which – like GCP – invests primarily in infrastructure debt, but using a much broader definition of what constitutes infrastructure). We have excluded the Infrastructure India fund due to its risk profile, which does not align with the rest of the sector.

Since our last note, median discounts in the infrastructure sector have widened from 15.9% to 18.5%, although this betrays a solid improvement for some of the better-performing trusts. This likely reflects the market repricing those companies who have been able to better navigate the recent challenges. As we discussed, this includes GCP which has seen a solid rebound in its shares over the last few months. Despite this, its discount remains deeply depressed at 26% at the time of publishing, providing a significant opportunity for further re-rating. GCP also boasts the highest dividend of its immediate peer group, adding additional appeal to the shares.

Figure 19: Infrastructure peer group comparative data as at 31 July 2024

	Premium / (discount) (%)	Dividend yield (%)	Ongoing charge (%)	Market cap (GBPm)
GCP Infrastructure Investments	(25.7)	8.7	1.10	699
3i Infrastructure	(6.1)	3.7	1.65	3,122
BBGI Global Infrastructure	(8.6)	6.2	0.93	972
Cordiant Digital Infrastructure	(37.3)	5.2	0.90	583
Digital 9 Infrastructure	(72.6)	0.5	1.33	188
HICL Infrastructure	(19.7)	6.5	1.14	2,551
International Public Partnerships	(16.8)	6.5	1.20	2,426
Pantheon Infrastructure	(23.9)	4.8	-	394
Sequoia Economic Infrastructure	(16.4)	8.7	0.95	1,253
Peer group median	(18.5)	6.1	1.10	988
GCP rank	6/9	1/9	4/8	6/9

Source: Morningstar, Marten & Co

As noted, GCP's NAV resilience has provided a source of optimism in what has otherwise been a challenging stretch. The company has delivered the second-best growth in its peer group over the last three years, as shown in Figure 20. This is despite the adviser's maintaining conservative valuations across the portfolio, which should hold it in good stead for future realisations (as we saw with the recent disposal of Blackcraig wind farm, which was sold at a 6% premium to NAV). As the capital recycling programme gathers momentum, we expect this should have a further positive impact on GCP's shares.

Figure 20: Infrastructure peer group cumulative NAV TR performance ending 31 July 2024

	3 months (%)	6 Months (%)	1 year (%)	3 years (%)	5 years (%)
GCP	1.6	1.1	2.3	27.5	34.1
3i Infrastructure	0.8	4.8	11.5	47.5	82.4
BBGI	1.4	2.8	4.2	25.6	48.6
Cordiant Digital Infrastructure	0.8	10.4	11.7	35.2	n/a
Digital9 Infrastructure	0.0	0.1	(21.1)	(14.4)	n/a
HICL	1.3	1.8	1.0	21.1	32.8
International Public Partnerships	1.4	2.7	3.8	22.7	36.4
Pantheon Infrastructure	0.9	5.0	13.0	n/a	n/a
Sequoia Economic Infrastructure	3.5	4.4	9.5	13.8	26.1
Peer group median	1.3	2.8	4.2	24.1	35.2
GCP rank	2/9	8/9	7/9	3/8	4/6

Source: Morningstar, Marten & Co

Alternative peer group – renewable energy funds

Figure 21: Renewable energy peer group comparative data as at 31 July 2024

	Premium / (discount) (%)	Dividend yield (%)	Ongoing charge (%)	Market cap (GBPm)
GCP	(25.7)	8.7	1.10	699
Aquila Energy Efficiency Trust	(36.9)	8.7	-	48
Aquila European Renewables	(24.9)	8.6	1.10	216
Atrato Onsite Energy	(25.1)	8.1	1.80	102
Bluefield Solar Income	(19.0)	8.0	1.00	655
Downing Renewables & Infra.	(34.9)	7.4	1.60	137
Ecofin US Renewables	(35.0)	5.4	1.78	56
Foresight Solar Fund	(23.6)	9.2	1.15	495
Gore Street Energy Storage	(43.4)	12.5	1.42	304
Greencoat Renewables	(17.4)	7.3	1.18	880
Greencoat UK Wind	(9.8)	6.9	0.92	3,289
Gresham House Energy Storage	(52.5)	8.7	1.19	359
Harmony Energy Income	(45.5)	0.2	-	119
HydrogenOne capital growth	(51.5)	-	2.56	65
JLEN Environmental Assets	(17.4)	8.3	1.24	624
NextEnergy Solar	(22.1)	10.3	1.11	484
Octopus Renewables Infrastructure	(26.9)	7.9	1.16	430
SDCL Energy Efficiency Income	(29.8)	9.9	1.02	695
The Renewables Infrastructure Group	(18.5)	7.3	1.04	2,545
Triple Point Energy Efficiency	(21.0)	8.1	2.06	68
US Solar Fund	(38.6)	4.8	1.39	112
VH Global Sustainable Energy Opportunities	(35.9)	7.6	1.39	300
Peer group median	(27.9)	8.0	1.20	349
GCP rank	10/22	7/22	5/21	4/22

Source: Morningstar, Marten & Co

In light of the increasing importance of renewable energy within GCP's portfolio, we feel it is also relevant to compare the company to the constituents of the renewable energy infrastructure sector, shown in Figure 21. However, it is worth noting that this encompasses a diverse range of funds which are not all directly comparable to GCP such as Ecofin US Renewables and the US Solar Fund, which have much-longer-term PPAs and are therefore less exposed to energy price volatility. GCP's asset base also differs widely from the energy storage funds – Gore Street, Gresham House and Harmony – and the energy efficiency funds – Aquila, SDCL and Triple Point.

We think the best comparators are probably Bluefield Solar, Foresight Solar, Greencoat UK Wind, JLEN Environmental, NextEnergy Solar, Octopus Renewables and The Renewables Infrastructure Group.

Figure 22: Renewable energy peer group cumulative NAV TR performance ending 31 July 2024

	3 months (%)	6 Months (%)	1 year (%)	3 years (%)	5 years (%)
GCP	1.6	1.1	2.3	27.5	34.1
Aquila Energy Efficiency Trust	0.0	0.0	0.4	n/a	n/a
Aquila European Renewables	(4.9)	(12.1)	(11.5)	n/a	n/a
Atrato Onsite Energy	1.5	0.7	n/a	n/a	n/a
Bluefield Solar Income	1.6	1.7	2.3	39.8	59.2
Downing Renewables & Infra.	1.2	3.7	5.9	n/a	n/a
Ecofin US Renewables	(1.5)	(6.1)	(12.7)	n/a	n/a
Foresight Solar Fund	1.8	0.1	2.2	41.2	45.9
Gore Street Energy Storage	1.8	(0.2)	(0.8)	29.0	n/a
Greencoat Renewables	0.2	1.7	4.7	32.4	n/a
Greencoat UK Wind	1.2	0.7	2.4	50.3	72.5
Gresham House Energy Storage	1.1	2.2	(7.8)	36.6	n/a
Harmony Energy Income	(7.5)	(7.5)	n/a	n/a	n/a
HydrogenOne Capital Growth	0.0	0.6	n/a	n/a	n/a
JLEN Environmental Assets	1.7	(0.2)	0.1	42.6	53.5
NextEnergy Solar	2.0	1.1	3.6	30.7	36.1
Octopus Renewables Infrastructure	1.5	0.8	2.0	n/a	n/a
SDCL Energy Efficiency Income	1.7	3.3	(4.6)	5.5	n/a
The Renewables Infrastructure Group	1.5	0.7	0.1	29.0	45.1
Triple Point Energy Efficiency	0.5	1.6	(7.5)	(6.8)	n/a
US Solar Fund	(1.4)	(1.6)	(1.8)	(4.9)	4.5
VH Global Sustainable Energy Opportunities	0.4	1.2	2.0	10.6	n/a
Peer group median	1.5	(0.2)	(1.5)	31.3	45.0
GCP rank	7/22	7/22	7/19	10/12	7/7

Source: Morningstar, Marten & Co

One important development since our last note is the change in discount for GCP compared to the rest of the renewable energy infrastructure group. Since we last published, GCP has jumped from one of the widest discounts in the sector to now sit comfortably in the top half. It is possible that this reflects the benefits of diversification in its existing portfolio, with roughly a third of GCP's investments outside of the renewables sector, which has continued to suffer from a range of issues, despite the long-term optimism surrounding the energy transition. Whilst the adviser is openly targeting an increase in this exposure to capture these tailwinds, for now its exposure to other assets leaves GCP in a relatively unique position where it can reallocate capital from other markets towards renewables which continue to trade on deeply depressed valuations.

Discount

Over the past 12 months, GCP's shares have traded on an average discount of 33.7%, a high of 22.7%, and a low of 45.6%. As of publishing, the discount stood at 25.6%. As Figure 23 shows, this has narrowed considerably over the course of 2024 as markets react to lower interest rates, and the fundamental upside provided by the GCP portfolio. The discount remains significant, but we believe that if economic conditions can remain supportive, and the adviser continues to execute on the capital recycling policy, this should continue to narrow. Additional asset sales above NAV will provide further support which should allow the adviser to re-align the portfolio to capitalise on the structural change in interest rates, and the rapidly developing renewable transition.

Figure 23: GCP discount over five years ending 30 June 2024

Source: Morningstar, Marten & Co

Previous publications

Readers interested in further information about GCP may wish to read our previous notes.

Figure 24: QuotedData's previously published notes on GCP

Title	Note type	Publication date
Stable income, uncertain times	Initiation	30 January 2020
Rebased dividend	Update	1 June 2020
Compelling yield	Annual overview	11 January 2021
Penalised for being conservative?	Update	1 July 2021
The future is brighter and greener	Annual overview	18 January 2022
Improving outlook and room to grow	Update	19 July 2022
Green is good	Annual overview	7 February 2023
Merger to unlock compelling value?	Update	17 August 2023
Don't look back in anger	Annual overview	30 January 2024

Source: Marten & Co

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