

Bluefield Solar Income Fund

15:06 08 Jul 2019

Do UK solar funds offer a cloudless spot for income investors? (Part II of II)

NextEnergy Solar Fund Ltd (LON:NESF) has started work in the UK building what will not only be its first subsidy-free solar farm, but is also the first in the world, it says.

Work began in February on Hall Farm II, a 5.5 megawatt (MW) plant adjacent to an existing solar farm in Leicestershire, and the project is expected to start exporting electricity to the grid in the third quarter of 2019.

READ: Part I of the solar funds feature

Following that, the investment company expects to begin constructing its Staughton plant, a 50MW farm in Bedfordshire, due to be the largest plant in NextEnergy's global portfolio and subsidy-free to boot.

"These achievements are notable as they demonstrate the economic case for new solar PV assets in the UK compared to other energy generation technologies, many of which still require extensive and expensive subsidies," NextEnergy said.

Its subsidy-free strategy envisages adding between 100MW and 150MW in generating capacity to the portfolio, which would require a total of between £55m and £80m and, with 125MW would mean the subsidy-free portfolio would represent around 15% of total 2018/19 generation.

WATCH: Bluefield Solar Income Fund in top shape as renewables come of age "Is subsidy free viable?" wonders Numis analyst Colette Ord. "We'll see when NextEnergy numbers come out.

"This is the challenge for investors, to hope that people are paying the right amount to generate the targeted returns."

NextEnergy Capital's Michael Bonte-Friedheim, who manages the FTSE 250-listed investment trust, told Proactive Investors of his confidence that the team's years spent driving down the costs of its "solar value chain" so that build and operating costs are lower than others in the sector, will make its subsidy-free solar projects financially viable.

"A project has to have an unlevered IRR [internal rate of return] of at least 7.5% before we even make an investment decision," he says.

Elsewhere in the sector, Bluefield Solar Income Fund Ltd (LON:BSIF) haven't pressed the button on any subsidy-free solar yet but they have flagged to the market that they see unsubsidised projects as an area of opportunity, with Foresight Solar Fund Ltd (LON:FSFL) making similar noises.

Price: 143.885

Market Cap: £533.09 m

1 Year Share Price Graph



January 2019 July 2019 January 2020

Share Information

Code: BSIF

Listing: LSE

52 week High Low
145.5 126.5

Sector: Investments and investor services

Website: www.bluefieldsif.com

Company Synopsis:

Bluefield Solar Income Fund (BSIF/the Company) is an investment company focused on the acquisition and management of a diversified portfolio of large scale solar energy in the UK. BSIF targets utility scale assets and portfolios on greenfield, industrial and/or commercial sites with the objective of delivering long term stable yield.

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Investment assumptions

While both Ord and Jupiter fund manager Richard Curling are big fans of the dependable dividend yields that the sector offers, they caution investors not to expect just sunshine and lollipops - and to do their research.

"You have to look at the assumptions that managers make in assessing their assets to get to that target return," Ord says.

"If NextEnergy think it's viable, that's going to take into account the assumptions they have, which includes a higher inflation forecast than others in the sector and an assumed longer asset life for their projects."

Adding five or 10 years to the assumed life of a solar asset is not an unreasonable supposition and provides a fairly sizeable one-off boost to NAV, while NextEnergy's higher inflation assumption was taken directly from the government's RPI forecast.

Bluefield, which is a corporate client of Numis, has yet to extend the asset life assumptions for its projects but are looking to do so.

Ord argues that higher share price premiums reflect the predictability of the underlying cashflow.

"So where there is a greater predictability of the cashflow or greater comfort that cashflow can withstand changes in power market, then those companies should trade slightly better."

Different business models

Curling says one thing he particularly likes about Bluefield is the business model.

"It's the only one of the renewables funds that pays 100% of its profits out to investors - and it has the highest yield.

"Another thing is they manage their own funds, rather than via an external investment manager, whose focus is partly on asset gathering, rather than being totally motivated by performance.

"Other solar funds have raised money as the external manager makes more money from having a bigger fund. It's been a popular area to invest in so the managers need to invest that money."

Bluefield have the smallest market cap in the sector as they have sat on the sidelines in recent year and held back from raising money.

"Another reassuring thing is their slightly different fee structure," Curling adds. "If they fail to reach their dividend objectives they have to sacrifice fee income. So they have every incentive not to pay too much for assets."

Solar's future will be battery powered

Curling, who is also invested in wind assets though Greencoat UK Wind (LON:UKW), says the rise of battery technology will add a big difference to the solar industry.

"If you can store energy when you produce it and then sell it at times of high demand that would increase your returns enormously," he says.

"My sense is the technology is not quite there yet but if they can do it, that's the holy grail for solar."

Curling is "having a look at one or two" battery technology funds to add to his portfolio, such as Gresham House Energy Storage Fund PLC (LON:GRID) and Gore Street Energy Storage Fund PLC (LON:GSF).

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