

14 April 2021

Adam Forsyth

adam.forsyth@longspur.com

+44 (0) 131 357 6770

Price (p)	101.2
Shares in issue (m)	587
Mkt Cap (£m)	594
Net debt (£m)	189
EV (£m)	783
NAV (p)	99.6

Share price performance

1m	0.8%
3m	-3.6%
12m	-16.4%
12 m high/low	121/97
Ave daily vol (30D)	1,414,860

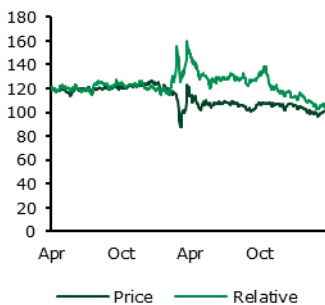
Shareholders

Old Mutual Plc	14.2%
Artemis Investment	10.8%
Baillie Gifford	10.1%
Prudential Plc	8.9%
Legal & General	7.0%
Investec Plc	6.3%
Valu-Trac	5.6%
Vt Gravis Funds Icvc	5.1%
Gov't of Sweden	5.0%
Fundrock Partners Lt	4.3%
Total for top 10	77.2%

Next news Finals Q2

Business description

Solar generation investment fund



CUSHIONED AGAINST WEAKER PRICES

The latest UK Power Market Outlook from Bloomberg New Energy Finance shows low UK wholesale electricity prices over the next ten years, falling below £20/MWh by 2030. However, we expect actual price outturns to be higher due the circular impact of lower prices on new capacity investment. While prices may weaken, we think they are unlikely to match the BNEF forecasts. NextEnergy Solar Fund benefits from its non-amortising debt which gives the company a cash cushion with which to maintain dividends even in the face of weaker prices.

BNEF signals lower electricity prices

Bloomberg New Energy Finance has published its UK Power Market Outlook last week. The publication of this report last year caused a decline in the valuation of the UK renewable yieldcos as it forecast significantly lower wholesale electricity prices by the end of the decade, dropping below £30/MWh. Yieldco values stabilised as a key feature of the BNEF forecasts became better understood. The forecasts show prices that would make new investment unrewarding, yet they assume that new investment takes place anyway. A real-world outcome would be that, while prices might fall below current levels, new investment would cease, allowing prices to stabilise at a level above that of the BNEF forecasts. While there are some key updates in the new BNEF work, to a large extent this paradox remains, and we see the very low prices in the forecast (now below £20/MWh in 2030) as less likely without other changes in the market.

“Our European Energy Transition Outlook capacity modelling solves for the least-cost system that meets electricity demand at all times. Because the capacity built is both the cheapest, and needed from a system perspective, we assume it will somehow be paid for.”

Not that low

However, we do think there have been key developments that suggest some degree of lower pricing is likely. The reopening of Contract for Difference (CfD) auctions to onshore wind and photovoltaic (PV) solar mean that we will still see new capacity entering the market, which is indifferent to wholesale prices, at least in the near term. However, the BNEF forecast assumes new capacity roughly 25% ahead of UK government targets and thus ahead of CfD driven capacity additions. As a result, we do not think the outcome will be as negative as that suggested by BNEF.

The NESF dividend is cushioned against lower prices

Our initiation note on NextEnergy Solar Fund (Reassuring On Dividend Payability, Longspur Research 20 October 2020) showed that the fund is well placed to maintain its dividend in a lower pricing environment thanks to its significant proportion of non-amortizing debt. This gives the company effectively higher cash cover than most of its peers. While comparison with other yieldcos is hampered by lack of disclosure by most, the only other with non-amortizing debt is Greencoat UK wind which also looks defensive in a lower pricing environment but unlike NESF will need to repay its debt in five years.

Equity Research Disclaimers

Non-independent research

This report has been commissioned by the issuer and prepared and issued by Longspur Research, in consideration of a fee payable by the issuer. It is Non-Independent Research and a marketing communication under the FCA's Conduct of Business Rules. It is not Investment Research as defined by the FCA's Rules and has not been prepared in accordance with legal requirements designed to promote Investment Research independence and is also not subject to any legal prohibition on dealing ahead of the dissemination of Investment Research. We do not hold out this research material as an impartial assessment of the values or prospects of the company.

Notwithstanding this, Longspur Research has procedures in place to manage conflicts of interest which may arise in the production of Research, which include measures designed to prevent dealing ahead of Research.

Minor non-monetary benefit

This Research is a minor non-monetary benefit as set out in Article 12 (3) of the Commission Delegated Directive (EU) 2017/593. The Research is paid for by a corporate client of Longspur Research) and can be distributed free of charge.

Copyright

Copyright 2019 Longspur Capital. This Communication is being supplied to you solely for your information and may not be reproduced, redistributed or passed to any other person or published in whole or in part for any purpose without the prior consent of Longspur Research. Additional information is available upon request.

Regulated by the FCA

Longspur Research Longspur Research is a trading name of Longspur Capital Limited, authorised and regulated by the Financial Conduct Authority (FRN 839313). Longspur Capital is registered in England, company number 11011596.

No warranty as to accuracy or completeness

All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified.

Opinions contained in this report represent those of the Longspur Research analyst at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. No representation or warranty is made as to the accuracy or completeness of the information included in this Research and opinions expressed may be subject to change without notice. Longspur Research does not undertake any obligation to revise such forward-looking statements to reflect the occurrence of unanticipated events or changed circumstances.

This report is solely for informational purposes and is not intended to be used as the primary basis of investment decisions. Longspur Research has not assessed the suitability of the subject company for any person. Because of individual client requirements, it is not, and it should not be construed as, advice designed to meet the particular investment needs of any investor. This report is not an offer or the solicitation of an offer to sell or buy any security.

Longspur Research has no authority whatsoever to make any representation or warranty on behalf of any of its corporate finance clients, their shareholders or any other persons similarly connected.

Information purposes only

This Research is designed for information purposes only. Neither the information included herein, nor any opinion expressed, are deemed to constitute an offer or invitation to make an offer, to buy or sell any financial instrument or any option, futures or other related derivatives. Investors should consider this Research as only a single factor in making any investment decision. This Research is published on the basis that Longspur Research is not acting in a fiduciary capacity. It is also published without regard to the recipient's specific investment objectives of recipients and is not a personal recommendation. The value of any financial instrument, or the income derived from it, may fluctuate.

Take own advice

The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Longspur Research's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

Longspur Research may have a position

At any time, Longspur Research or its employees may have a position in the securities and derivatives (including options or warrants) of the companies researched and this may impair the objectivity of this report. Longspur Research may act as principal in transactions in any relevant securities, or provide advisory or other services to any issuer of relevant securities or any company connected therewith.

Only for eligible counterparties and professional clients. Not for retail

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document (nor will such persons be able to purchase shares in the placing).

MAR Formal disclosure of conflicts

This report has been commissioned by the issuer and prepared and issued by Longspur Research in consideration of a fee payable by the issuer. Fees are paid upfront in cash without recourse. A draft has been sent to the issuer for comment and it has been appropriately amended.

Neither Longspur Research nor the analyst have any holdings in the issuer. Longspur Research may from time to time provide the issuer with of consultancy advice.

See webpage for additional MAR disclosures.

GDPR

For further information about the way we use your personal data please see our Third Party Privacy Notice www.longspurresearch/privacy/ or at such other place as we may provide notice of from time to time. We may contact you about industry news, offers and information relating to our products and services which we think would be of interest to you. You can tell us you do not wish to receive such communications by emailing michelle.elsmore@longspur.com.

Laven Consulting Limited (incorporated and registered in England and Wales with company number 10918441) (“Laven”) acting through its Paris branch located at 128 Rue La Boetie 75008, Paris, France as designated representative of Two Sigma Investments LP (“Company”), in accordance with art. 27 of the General Data Protection Regulation (the Regulation (EU) 2016/679) (“GDPR”). The Company has mandated Laven to be the European representative of the Company with regards to any communications or enquiry from the Supervisory Authority and/or data subjects on all issues related to the processing of personal data. Please contact Laven on info@eurorep.eu; the postal address is FAO EuroRep, c/o Laven Partners, 128 Rue La Boetie 75008, Paris, France. When contacting Laven regarding the Company please quote the name of the company and the Ref: 0085.

Severability Applicable law

Exclusion of Liability: To the fullest extent allowed by law, Longspur Research shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out or in connection with the access to, use of or reliance on any information contained on this note.

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

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