

SDCL Energy Efficiency Income (SEIT)

12/07/2024

Results analysis from Kepler Trust Intelligence

SDCL Energy Efficiency Income's (SEIT) annual results to 31/03/2024 show a NAV total return of -4.7%. SEIT paid total dividends of 6.24p (2023: 6.0p) and the NAV decreased to 90.5p (2023:101.5p). At the current share price, SEIT yields c. 9.4%. Dividends were covered 1.1x by cash and based on current projections the board announced dividend guidance for the year ending 31/03/25 of 6.32p and reaffirmed the goal of a progressive dividend thereafter.

The main driver of the NAV decline was a 90bp increase in the weighted average discount rate (WADR) to 9.4%, with this increase taken in the first half of the year to 30/09/2024. Of the 11.7p decrease in NAV per share, 10.8p was due to movements in discount rates.

Post-year end, UU Solar was sold for c. £90m, a 4.5% premium to its valuation at 30/09/2023, which, along with external valuations of some assets, helps to provide 'proof' of c. one third of the portfolio, the valuation policy and hence the NAV. The proceeds were used to reduce short-term debt.

The SEIT team notes that the underlying portfolio return, if it was left to run off to maturity, would be c. 9.4% p.a. if current gearing just ran off on schedule and 11% levered if gearing was maintained at current levels. Factoring in the discount, the share price return could, if the price converged with NAV, and taking off ongoing charges of c. 1.1%, could result in returns of 13-14% p.a.. Clearly this relies on all investments performing as forecasted, but is a good indication of what the discount could actually mean for returns.

SEIT sold one of its largest assets post-year end for a premium to its last valuation, which is the kind of proof of valuation that investors across SEIT's peer group have been asking to see for the last two years. This, combined with the point we are in the rate cycle referred to above, means that pieces are beginning to fall into place for first, a stabilisation in asset value and second an improvement in SEIT's c. 26% discount, which means that its covered dividend is equivalent to a c. 9.4% yield measured at the share price. As the chair notes, the underlying trends behind SEIT are only getting stronger, and this discount and yield seem like a very good point for a long-term investor to initiate a position.

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