Investment Trust Newsletter

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BLUEFIELD SOLAR INCOME FUND (BSIF, 131.75p)

Staying with the same sector, and some of the same topics, we said in July that BSIF – a trust we have followed closely and liked for some time – was opening itself up to greater operational risk and potential 'style drift' by broadening its investment remit beyond straightforward UK solar energy assets. A couple of weeks ago we had the chance to speak to Bluefield's chief executive James Armstrong to learn more about the rationale behind this latest move.

James explained that the managers have spent a lot of time and thought planning these proposed changes, which represent an evolution after several years of disciplined income-producing work in the pure UK solar sector. Shareholders are supportive of the proposals, which reflect changes on a macro level in energy markets. James described this next phase as "a very measured and very focused change" that will retain the overwhelming focus on UK solar, representing at least 75% of assets – this has evolved into something of a 'solar-plus' strategy for Bluefield. James still very much likes the predictability and simplicity of the core solar assets, but seven years on from the IPO the industry has changed and developed, and he says there is a need to recognise that the ideal portfolio shape changes too.

Looking ahead, James has identified two big themes for the next decade. The first is a big focus on decarbonisation, with significantly more renewables driven by public policy (potentially set to accelerate if Joe Biden becomes the next US President). James says the renewables sector has "incredible momentum which is picking up pace" and will require trillions of dollars of investment that might be a challenge for big companies with legacy assets to maintain. The opportunities will likely remain for relatively small operators able to deal with small parcels of assets. This poses the question of which technologies might prosper and complement the core solar farms, and at present James believes that onshore wind and hydrogen might make sense. Both are fairly easy to operate, and so Bluefield is investigating these possibilities in a prudent way, helped by Baiju Devani, who has just joined the team after spells as a fund manager with Ingenious and on the commercial team at RES, independent renewable energy developers. James says he adds significant wind expertise and specific M&A experience as well.

The second theme for the future is related to the first – that once this shift to renewables has taken place, a consequence of the intermittent power generation and volatility of prices is the need for energy storage. This is a story we have seen growing in strength as power networks wrestle with the different sort of power generation on offer from these cleaner technologies, and James believes it will be important for the future energy mix. He says he is sceptical of the simple 'revenue stack' model from current storage operators who trade on differential power prices and mix that revenue with availability 'back up' contracts for the grid, but nevertheless sees a place for this in the Bluefield portfolio at some stage. "We won't be the first guys through the door", he says, but indicates the trust will use its usual sensible and prudent approach to find a good fit. And it will be sticking to the UK, avoiding the additional cost, intricacy, and currency risk that overseas investments inevitably involve.

There's no getting away from the fact that BSIF is going to enter a period of change, even if this is not major. James admits this is adding complexity, which is the point we were making, but it keen to emphasise the focused nature of the evolution. He also batted away the suggestion that BSIF shares might be richly valued on an 18.3% premium to net asset value, saying "I think there is a misread of the premium" in a sector where the yield is the key and the cashflows are highly attractive. He believes the investment case here is all about the income, especially after the decimation of dividends elsewhere. The current yield is 5.9%, which we certainly agree remains attractive.

As always with BSIF, the objective here is to grow in a sensible way, and that will probably require a further capital raise at some point, the first since 2016 for this trust. Leverage might also pick up, so we think there is every chance of more capital and debt being deployed here to take this trust to the next stage of its development.

For existing shareholders in BSIF, this update should be reassuring. The trust is not throwing out of its currently successful model, or in any way abandoning the sector in which it is such a high-quality player. In fact, news after our interview that the trust has bought a further 15 operational solar PV plants in England and Wales for an initial £106.6m, funded by a new loan facility from NatWest, only serves to cement this frame of reference.

Source: Andrew McHattie, Investment Trust Newsletter

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