

RNS Number : 1996P
GCP Infrastructure Investments Ltd
15 August 2014

GCP Infrastructure Investments Limited

Interim Management Statement

GCP Infrastructure Investments Limited (the "Company"), the listed infrastructure investment company, is issuing this Interim Management Statement in accordance with FCA Disclosure and Transparency Rule 4.3. This statement relates to the period from 1 April 2014 to 14 August 2014.

The Company's investment objectives are to provide its Shareholders with regular, sustained, long-term distributions and to preserve the capital value of its investment assets over the long term by generating exposure to subordinated PFI debt and related and/or similar assets.

To achieve its investment objectives, the Company focuses on taking debt exposure (through a wholly-owned subsidiary) to infrastructure projects which have pre-determined, very long term, public sector-backed revenues.

Gravis Capital Partners LLP (the "Investment Adviser") acts as investment adviser to the Company.

Highlights

- The Company advanced new loans totalling c. £55 million secured against UK renewable energy and PFI projects.
- Two thirds of the C Share capital raised in March 2014 has been deployed triggering the conversion of the C Shares into Ordinary Shares on 8 August 2014, within the anticipated timeframe.
- The Investment Adviser continues to progress a number of further transactions through late stage due diligence in order to invest the remaining cash held by the Company.
- The Company declared quarterly dividends of 1.90 pence per share for each of the two periods to 31 March 2014 and 30 June 2014.
- The valuation of the Company's investment portfolio as at 1 August 2014 was £415.9 million.
- The NAV per Ordinary Share of the Company as at 1 August 2014 was 103.20 pence.
- The Company's annual report and consolidated financial statements for the period ended 31 March 2014 were released on 23 May 2014, reporting consolidated net assets of £371.2 million and profit for the period of £18.9 million.

Ian Reeves, Chairman of GCP Infrastructure Investments Limited, said:

"The Company has advanced loans with a value of c. £55 million during the period, deploying roughly two thirds of the C Share capital raise in March 2014. The conversion of the C Shares into Ordinary Shares in early August 2014 was within the anticipated timeframe and was a welcome validation of the Company's policy of raising conservative levels of new capital only when it has clear visibility on a pipeline of high quality assets. The Board has been very pleased to be able to maintain the quarterly dividend at 1.9p per share, making the Company one of the highest yielding stocks in the infrastructure and renewable energy sector, despite generating its revenue from a more senior and secure part of the capital structure of its investee companies than its peers."

Loans advanced and pre-paid during the period

During the period, the Company advanced five additional loans totalling c. £55 million against a variety of renewable energy and PFI projects:

On 8 May 2014 the Company completed a transaction subscribing for loan notes with an aggregate value of £12.5 million, an interest rate of c. 10.5% and a term of c. 12 years. The loan notes are secured on a senior basis against a series of 500 kilowatt anaerobic digestion plants all of which are expected to be located in Northern Ireland. All payments of both principal and interest in relation to the loan notes are expected to be serviced from income arising from the Northern Ireland Renewables Obligation Certificates generated by the operation of the assets, which are issued by the Gas and Electricity Markets Authority.

On 19 May 2014 the Company completed a transaction subscribing for loan notes with an aggregate value of £6.6 million, an interest rate of c. 10.1% per annum and a term of c.21 years. The loan notes are secured against the cash flows arising from a number of portfolios of domestic solar panel installations in England installed by A Shade Greener Limited. Such security will be on a subordinated basis in respect of one such portfolio, and on a senior basis in respect of the remainder. All payments of both principal and interest in relation to the loan notes are expected to be serviced from income arising under the UK Government's Feed-In Tariff Scheme.

On 27 May 2014 the Company completed a transaction subscribing for loan notes with an aggregate value of £7 million, an interest rate of c.9% and a term of c.18 years. The loan notes are secured on a senior basis against the cash flows arising from an operational 1.99 MW Hydropower scheme in Scotland. All payments of both principal and interest in relation to the loan notes are expected to be serviced from income arising under the UK Government's Feed-In Tariff Scheme.

On 18 July 2014 the Company completed a transaction subscribing for loan notes with an aggregate value of £12.2 million, an interest rate of 9.5% and a term of c.15 years. The loan notes are secured on a senior basis against the cash flows arising from two operational gas to grid anaerobic digestion schemes in England. All payments of both principal and interest in relation to the loan notes are expected to be serviced from income arising under the UK Government's Renewable Heat Incentive Scheme and from the sale of gas.

On 1 August 2014 the Company completed a transaction subscribing for loan notes with an aggregate value of £16.5 million and a term of c.24 years. The loan notes are secured against the cash flows arising from a subordinated debt interest in a schools PFI project. All payments of both principal and interest in relation to the loan notes are expected to be serviced from subordinated debt interest and principal payments.

All acquisitions have been financed fully from available cash reserves.

On 3 April 2013 the Company announced that a loan of £11.25m had been made to GCP RHI Boiler 2 Limited. The proceeds of the loan

were used to fund a debt facility to finance the installation of biomass boilers on commercial premises. On 27 January 2014, GCP RHI Boiler 2 Limited pre-paid £5m of the loan amount then outstanding. Given that the demand for such boilers has remained significantly lower than anticipated, GCP RHI Boiler 2 Limited pre-paid the remaining £6.25m of the loan amount outstanding on 15 May 2014.

Conversion of C Shares and issuance of New Ordinary Shares

As a result of the acquisition of the loan notes on 1 August 2014, the value of investments of the Company exceeded 90% of the net asset value of the Company and, therefore, in accordance with the terms of the C Share issue of March 2014, the Directors determined that the Calculation Time (as defined in the Company's prospectus dated 12 February 2014 (the "Prospectus")) for the conversion of C Shares into Ordinary Shares would be 1 August 2014 and, as a result, the conversion was to be made on the basis of the respective net asset values of the C Shares and Ordinary Shares as at close of business on 1 August 2014.

On 7 August 2014, the Company announced that the net asset values attributable to the Ordinary Shares and the C Shares as at the Calculation Time were 103.20 pence per share and 98.63 pence per share respectively. The Conversion Ratio for conversion of the C Shares, as calculated in accordance with the Prospectus, was 0.9557 Ordinary Shares for every one C Share held.

On the basis of the Conversion Ratio, a holder of 10,000 C Shares received 9,557 Ordinary Shares upon Conversion.

On the basis of the Conversion Ratio, an application was made for 76,456,000 Ordinary Shares to be admitted to the Official List of the UK Listing Authority and to trading on the London Stock Exchange. Such admission became effective and dealings in these New Ordinary Shares commenced on 8 August 2014.

Dividend declaration

The Company declared on 15 April 2014 and 15 July 2014 quarterly dividends of 1.90 pence per share for the three month periods ending 31 March 2014 and 30 June 2014 respectively.

The Company also offered a scrip dividend alternative in lieu of the cash dividends.

Portfolio overview and performance

As at 1 August 2014, the Company was exposed to a portfolio of 36 infrastructure loans (the "Loans") valued at £415.9 million. The Loans have been made against the performance of a number of availability-based UK PFI projects and renewable energy installations (the "Projects"). None of the Projects have reported any material operational performance issues during the period.

As at 1 August 2014, 40% of the Loans by value are exposed to PFI projects, 23% to rooftop solar installations, 13% to anaerobic digesters, 10% to onshore wind turbines, 7% to biomass projects, 4% to commercial solar parks, 2% to hydro-electric schemes and 1% to a school lease. The weighted average expected life of the Loans is fourteen years and the weighted average yield is 9.6% p.a. annual equivalent. The valuation of the Loans is £415.9 million (based on a valuation carried out by Mazars LLP, the Valuation Agent, as at 1 August 2014), reflecting a weighted average discount rate across the portfolio of Loans of c. 8.8%.

Market update and pipeline

The Company made an investment on 4 August 2014 in a schools PFI project but it remains the view of the Investment Adviser that the yields available on the vast majority of secondary, availability-based PFI transactions fall below levels where they are attractive to the Company. As such it is not the expectation of the Investment Adviser that many future investments of the Company in the immediately foreseeable future will be in the PFI sector.

The Investment Adviser continues to monitor developments with regard to investment opportunities arising under PF2, but does not anticipate completing any such investments in the near term.

The main focus of the Investment Adviser remains advancing long dated loans secured against renewable energy projects that generate UK subsidies in the form of the renewable heat incentive, the feed-in tariff or renewable obligation certificates. To date, this has resulted in the Company lending to project companies that own solar installations (both rooftop and ground mounted), small scale on-shore wind farms, hydroelectric schemes and a wide variety of biomass projects. These loans are typically secured on a senior basis.

The last year has seen returns available in some of these sectors fall below the target interest rates of the Company. This has been particularly true in the solar sector where the Company is unlikely to be able to lend substantial amounts in the future at its target rates on a senior basis due to hugely increased competition both in the form of new equity investors as well as a number of senior lenders that are becoming increasingly active. This increase in pricing has been reflected in the upward valuation of the Company's more mature solar loans.

However, whilst there has undoubtedly been a marked increase in number of active long dated lenders, primarily in the form of banks and institutions, it remains the case that these lenders only serve a limited section of the Company's target UK infrastructure market. These lenders tend to be limited in how they can lend in terms of loan length, size, security, project technology and construction exposure. As such the Company is able to obtain attractive returns on debt investment opportunities relating to smaller infrastructure projects backed by long-dated, secure, public sector-backed contracts that are not currently well served by other lenders, particularly in the wider biomass and onshore wind sectors.

Company's NAV performance

As announced on 7 August 2014 the NAV per Ordinary Share as at 1 August 2014 was 103.20p.

Company financial statements

The Company's interim report and consolidated financial statements for the six month period ended 31 March 2014 were released on 23 May 2014, reporting consolidated net assets of £371.2 million and profit for the period of £18.9 million.

AIFMD update

The Investment Adviser is acting as the Company's Alternative Investment Fund Manager ("AIFM") in accordance with the Alternative Investment Fund Managers Directive ("AIFMD"). The Investment Adviser has submitted an application to the Financial Conduct Authority (the "FCA") to vary its permissions to enable it to act as an AIFM for the purposes of the AIFMD and this application is currently being processed. In accordance with the transitional provisions implemented by the FCA in relation to the AIFMD the Investment Adviser has since 22 July 2014 managed the Company in accordance with the requirements of the AIFMD and will continue to do so while its application is processed.

On 22 July 2014, the Company announced that it had appointed Capita Trust Company (Jersey) Limited (the existing custodian to the Company) (the "Depository") to act as the Company's depository (as required by the AIFMD) on the terms and subject to the conditions of an amended and restated custodian agreement dated 21 July 2014 entered into between the Company, GCP Infrastructure Asset Holdings Limited (a wholly owned subsidiary of the Company) and the Depository.

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GCP Infrastructure Investments Limited

The latest factsheet is available at:

<http://gcpuk.com/gcp-infrastructure-investments-ltd/investor-reports>

Gravis Capital Partners LLP ("GCP" or the "Investment Adviser")

GCP is the investment adviser to the Company. GCP is an infrastructure investment advisory specialist and is authorised and regulated by the Financial Conduct Authority.

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