Harnessing CNG's potential to diversify income

The potential of compressed natural gas (CNG) as a preferred fuel of the future was underscored in 2018, as major companies modernised their vehicle fleets to run on CNG.

Billed as the cleanest burning transportation fuel on the market, CNG appeals due to its widespread availability and comparative low cost to petrol and diesel. In addition to its green credentials and day-to-day cost appeal, CNG also offers companies the promise of lower maintenance costs due to lower corrosion of vehicle parts.

Supermarket chain Waitrose, delivery group UPS and brewer Anheuser-Busch are among the major brands to have modernised their vehicle fleet in recent months to run on the alternative fuel source.

For companies moving to adopt CNG, the investment is one for the long term.

Each of Waitrose's new CNG trucks cost 50% more to build than those which run on diesel, but the savings are soon recouped once they are put to work. It is anticipated that the British supermarket will make savings of between £15,000 to £20,000 a year from each vehicle, depending on mileage - a saving which is likely to repay the initial outlay in two to three years[*]. An analysis of Waitrose's updated fleet suggested that vehicles are likely to generate overall lifetime savings of £75,000 to £100,000 compared to diesel vehicles and save around 100 tonnes of CO_2 each year.

In June, *The Wall Street Journal* reported[**] that delivery company UPS was spending $130 million on 730 CNG vehicles, to bolster its current fleet by 19%. The report said that the company also intends to add an additional five proprietary CNG refuelling stations to the 50 it already has. This endorsement again highlights the keen attitudes of major businesses to CNG.

But the appetite for CNG is not purely limited to commercial vehicles. The appetite for cheaper, cleaner alternatives to petrol and diesel is building more broadly.

Figures from the European car industry association (ACEA) show there were 19,496 CNG-powered cars sold in the first three months of 2018. *Automotive News Europe* reported[***] that Volkswagen

* https://www.cngfuels.com/newsroom/game-changing-500-mile-range-biomethane/

** https://www.wsj.com/articles/ups-is-adding-730-alternative-fuel-trucks-to-its-fleet-1529433303

*** http://europe.autonews.com/article/20180630/ANE/180619948/cng-car-sales-set-to-rise-on-tougher-emissions-rules

Group had seen sales of its three CNG powered models double to 7,072 cars in the second quarter of 2018 from 3,418 in the first quarter.

As interest for CNG vehicles continues to grow, so does the need for production and processing plants to meet the demand. For the GCP Asset Backed Income Fund these plants offer an opportunity to diversify the risk in the portfolio.

“Compressed natural gas is one of the big growth areas at the moment, with an increasing number of commercial vehicles starting to run on CNG,” explains portfolio manager David Conlon. “We have already funded one plant that supplies to Waitrose, and we are also looking at one other.”

For Gravis, CNG plants are yet another example of how the fund group diversifies risk through a portfolio of loans secured against assets across a broad range of sectors.

“The fund is designed to be a flexible opportunistic lending vehicle,” explains Mr Conlon. “It doesn’t have any direct mandate that limits where we can invest. We believe it is important to have a wide spectrum of assets and, as such, have 15 different sectors in the portfolio.” Sectors are income focused and include energy and infrastructure and social infrastructure, the latter being defined as assets that meet the requirements of societies core needs, housing for vulnerable adults, care for the elderly and urban regeneration.

For investors seeking to learn more about the sectors within the GABI portfolio, they can do so at www.graviscapital.com

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