Results analysis: BlackRock Energy and Resources Income

BERI has delivered another strong year of performance...

Update
17 February 2025

- **BERI delivered strong returns in the year ending 30/11/2024, with a net asset value (NAV) per share increase of 15.3%, significantly outperforming the reference index return of 0.5%. The share price total return was 14%.**

- **This means that the trust returned 125.0% over the five years to 30/11/2024 compared to an 81.5% net total return for the MSCI ACWI Select Metals & Mining Producers Ex Gold and Silver IMI Index and 71.4% for the MSCI World Energy Index.**

- **Performance in the year was driven by mergers and acquisitions, particularly BHP and Lundin Mining acquiring Filo Corp and Cleveland-Cliffs acquiring Stelco. Increased portfolio allocation to Energy Transition stocks (from 24.9% to 29.2%) also contributed positively, with industrial holdings and electricity grid infrastructure companies playing a key role.**

- **Meanwhile in the traditional energy portfolio, despite stable oil prices, the midstream pipeline sector performed well. Uranium prices also strengthened due to growing demand for nuclear energy.**

- **The share price discount to NAV widened from 10.7% to 12.1% over the year. However, amidst continuing share buybacks it has since narrowed to 8.3%. The company bought back 9.83m shares during the year, and post-year-end, a further 1.7m, in total around 9% of the shares in issue.**

- **The board met its annual dividend target of 4.50p per share, despite revenue earnings per share falling 17.3% to 3.63p, funding the shortfall from revenue reserves.**

- **The company has entered into an agreement with activist investor Saba Capital that the latter will not interfere with the trust until at least 2027.**

- **Chairman of the board, Adrian Brown, said: “The Energy Transition remains one of the key megatrends, likely to affect the world economy over the next 2-3 decades, and a priority for both governments and companies. ... Against this backdrop, the flexibility of the Company’s investment mandate with the ability to shift exposure between Mining, Traditional Energy and Energy Transition sectors, means that it is uniquely positioned to serve investors as these sectors evolve.”**

Analysts:

Thomas McMahon
+44 (0)203 795 0070

Kepler View

BlackRock Energy and Resources Income (BERI) has delivered strong returns since the current investment remit was adopted in June 2020. The managers’ ability to shift between the mining, traditional energy and energy transition themes has been well-utilised, and the NAV returns have been ahead of indices tracking each of these sectors. There is strong structural support behind all three investment areas, but a rapidly rising cost of debt, macro-economic uncertainty and weakness in the Chinese economy have created cyclical challenges. As a result, this has been a period of volatility in the underlying sectors, and BERI has navigated it well.

The energy transition sector has been the weakest performer overall, having underperformed since early 2021. It is notable that this is the space that Mark and Tom have been adding to in recent months. They argue poor sentiment and the election of Trump have caused some high quality companies to become oversold and attractively cheap for the first time in years. However, the managers are selective in what they are buying – a benefit of their flexible approach which means they don't need to invest across the sector. In particular, they have identified attractive companies related to the theme of greater electricity grid spend and data centre build outs. These trends are also benefitting from what is expected to be the rapid rollout of artificial intelligence. The trust has also benefitted from holdings in the energy efficiency space. On the other hand, BERI has little exposure to EV manufacturers and battery manufacturers, although what little it does have detracted from returns over the year in question.

Looking forward, plenty of uncertainty remains on key macroeconomic themes. Chinese demand remains an important factor for the mining sector, the largest position in the portfolio. Meanwhile, the trade policies of the new US administration will have consequences that are hard to figure out. In Mark and Tom's view, the tough stance on China should lead to greater US manufacturing spend, and we think the emerging tariff regimes may have the same effect. This would have positive impacts on US demand for power, the grid and potentially on construction materials too. That said, the managers have reduced their industrial commodity exposure at the expense of precious metals and uranium. Mark and Tom note that the scale of the increased demand for power could lead to demand for natural gas and nuclear in the short to medium term, despite long-term net zero commitments. BERI's flexibility allows it to take positions in these areas while also investing in the energy transition sector itself.

The managers describe the energy transition as one of the megatrends that should play out over the next twenty to thirty years. In our view, BERI is an attractive way to take advantage of the related changes in markets and economies, precisely because of its flexibility. The trade policies of Trump and the ongoing economic difficulties in China are two key drivers of short-term uncertainty, and in this environment we think BERI stands out as having the ability to profit from market dislocations while keeping an eye on the long-term direction of travel.

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