Results analysis: Greencoat UK Wind

UKW delivers a confident set of results set against a challenging market backdrop.

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- **Over 2025, UKW's NAV decreased by 17.8p per share to 133.5p, a decrease of 11.8%. The most significant impact was lower power price forecasts, driven principally by falling gas prices over the year. The shareholder total return for the year, based on the share price and when factoring in dividends, was -4.9%, given the discount widening.**

- **Portfolio electricity generation was 8.5% below budget owing to low wind, notably in the first half. Despite lower than budget generation, net cash generated was £291m, and with declared dividends for the year totalling 10.35p per share, this represented dividend cover of 1.3x. Since listing, dividends have risen by RPI or more for 12 consecutive years meaning UKW is one a few FTSE 250 companies to have achieved this. In addition, c. £1bn of excess cashflow has been reinvested in the portfolio.**

- **Following the outcome of the Renewable Obligation (RO) Indexation Consultation, which changed the indexation basis for the RO scheme, UKW's future dividends will be indexed to CPI. Accordingly, the dividend target will be 10.70p per share for 2026, a 3.4 per cent increase in line with December 2025's CPI. The manager described UKW as having "unrivalled clarity on its dividend policy".**

- **Illustrative average dividend cover over the next five years is 1.8x and this would manifest £1bn of excess cashflows after paying a dividend increased annually by CPI. The manager commented that this gives UKW significant capital to deploy in order to maximise shareholder value.**

- **The Board will remain focussed on active portfolio management, including asset rotation, and the prudent allocation of capital. The Board intends to seek further divestments from the portfolio, building on the £222m of disposals to date with such divestments bolstering the forecasted £1bn of excess cashflows over the next 5 years. In the short term, debt reduction (to achieve gearing of below 40% of GAV) and share buybacks will be prioritised. However, over the longer term, reinvestment has always been essential to support the Company's return targets and dividend policy, and this remains the case today. The manager signalled that such reinvestments would likely focus on low cost, high value opportunities such as securing repowering rights or extensions to existing projects. The board notes that the current dislocation in listed markets may "create inorganic opportunities to add to the portfolio". In assessing investment opportunities, whether organic or inorganic, the Board will remain disciplined with a clear focus on long term shareholder value and serving the best interests of its shareholders.**

- **Over the next 7 years, 59% (on average) of UKW's revenues are fixed, with the vast majority of such fixed cashflows carrying explicit CPI linkage. This ratio will begin to decline as existing wind farms move towards the end of their respective subsidy periods. UKW's aim remains to maintain a balance of fixed and merchant (variable) cashflows. Amongst other portfolio management actions, UKW has fixed power prices for 2 years for approximately 150GWh per annum of offshore wind production. Further fixed price arrangements are in exploration and are expected to be consummated throughout 2026.**

- **Lucinda Riches, Chairman of UKW said: "The Board and the Investment Manager recognise that this has been a further challenging year for investors and have been working tirelessly to protect and build shareholder value... we**

have clear priorities for capital allocation during 2026 which include further divestments, reducing gearing, continuing share buybacks and a disciplined return to reinvestment. Beyond that, our structurally high dividend cover model is expected to deliver around £1 billion of excess cashflow over the next five years which, when supported by further strategic disposals, provides significant optionality to enhance value for shareholders. "

Kepler View

Whilst acknowledging the challenging backdrop in terms of sentiment, as well as the disappointing year in terms of returns, this was a confident set of results from **Greencoat UK Wind (UKW)**, in our view. In contrast to market sentiment, which has seen UKW's discount creep wider (currently c. 30%), the fundamentals for electricity demand across the UK appear brighter than ever. The management team highlighted that electrification of transport (EVs) and heat, not to mention demand from data centres, mean significantly greater electrons are needed in the UK over a relatively short period of time. Wind assets are a relatively quick and cost-effective way of providing this supply (for example compare the cost of onshore wind from the recent CfD auction of £72/MWh to the UK Government's latest estimate of gas at £147/MWh). At the same time, smart grid technologies will potentially reduce the discount that intermittent suppliers such as wind and solar generators receive for their electricity. In the manager's view, these factors provide a structural underpinning for UKW to continue to deliver attractive returns for shareholders.

Since IPO, UKW's strong return profile and capital structure have delivered aggregate dividend cover of 1.7x. The last couple of years have seen dividend cover fall to 1.3x, but the team predict a recovery over the next five years to 1.8x. This dividend cover, as well as UKW's significant size, is crucial to its long-term future, because of the optionality that surplus cashflows (after the payment of the dividend) give to the team. Reinvestment has been a key part of the success of UKW historically, and so with a forecast free cashflow over the period to 2030 of c. £1bn, the board has a lot of flexibility as regards accretive capital deployment in the future. The board have been clear that their capital allocation priorities for 2026 are (in this order):

- Further divestments, building on the £222 million of disposals to date
- A reduction in gearing, with the aim of reducing gearing below 40%
- Continuation of the share buyback programme
- A disciplined return to reinvestment, with an immediate strategy of generating low-cost optionality across the portfolio – for example extending leases on existing sites.

The manager was candid in saying that part of the reason for the wide discount to NAV is because of a structural over-supply of trusts offering exposure to renewable energy infrastructure. In our view, UKW has many reasons to think it may be more likely to be a survivor than be acquired / merged because of its scale and significant cashflows.

With shares trading at 93p at the time of writing (on 26/02/2026), the forecast yield based on UKW's 2026 dividend target is c. 11.5%. UKW's unambiguous dividend policy, of paying a dividend which rises in-line with CPI inflation is a key attribute, in our view. In addition, UKW's structurally higher dividend cover means that it offers significant resilience to downside scenarios with regards power prices, and still has options to deploy surplus cashflows towards new investments, buybacks or reducing debt. We note that UKW intends to continue to buy shares back, illustrating the confidence the board has in strength of the balance sheet. UKW has delivered impressive NAV total returns of 178% since launch 12 years ago, yet shares currently trade below their IPO price. Yet as the manager's highlighted, the case for the UK harnessing wind energy to meet surging demand has arguably got stronger. Any narrowing of the wide 30% discount would add to the strong potential returns from the underlying assets.

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