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The two faces of January

UKW's evolution provides scope for potentially greater returns.

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Like Janus, a Roman god of beginnings, endings and transitions, investors must don two faces: one looking backwards to the past, and another staring into the future. Having both these perspectives can benefit us all.

Indeed, judging by the recent capital markets day presentation from **Greencoat UK Wind (UKW)**, the board and management have been doing just that – and it's given us renewed confidence in the outlook for the trust, at a time when the investment case has rarely looked as attractive.

Taking a leaf out of Janus's book, we note that the board and managers have looked back to what's worked for the trust in the past and assessed what might work best in the future. A thorough market review stress-tested the pros and cons of investing across a wide array of both technologies and jurisdictions. The outcome was neither a new beginning nor a wholesale overhaul, but a calculated evolution of how UKW can deploy capital while remaining focused on UK wind.

There is, however, now a broader opportunity set than there was 13 years ago, when UKW became the first renewable energy infrastructure trust to list on the London Stock Exchange. This could provide UKW with the opportunity to aim for higher potential returns while staying true to what is a simple investment proposition.

As a reminder, UKW owns a portfolio of wind farms that contribute c. 2% of electricity generation in the UK each year. These wind farms are highly cash generative and provide UKW with predictable revenues that can be used first to support its dividend, with surplus self-generated capital then reinvested for future growth, with a target to at least preserve NAV in real terms.

UKW's dividend – one of the few in the sector that is explicitly linked to inflation – has been a cornerstone of the investment proposition; its historic payout serves as one important yardstick of whether the trust has achieved its aims. UKW has increased its dividend each year from an annualised 6p per share at IPO to 10.35p paid in 2025, with a target of 10.7p for 2026.

A new lease of life

The wind has been taken out of the sails of the renewables sector in recent years and UKW has been no exception. Having slipped to a persistently wide discount, over the past three years UKW has used a proportion of its surplus cash to buy back c. £200m in shares, equivalent to 6.5% of shares in issue before the buyback programme commenced. This was a prudent strategy – and UKW again led the sector on this front.

Yet, while these share buybacks have been accretive, done as they were at attractive prices, renewable energy assets such as wind farms are inherently finite: under UKW's current valuation assumptions, assets are assigned no residual value at the end of their assumed 30-year operating lives. Executing perpetual share buybacks is effectively a tool for winding the trust down.

In our view, the 97.1% vote in favour of continuation demonstrated strong shareholder support for UKW to continue pursuing its investment objective. We think shareholders will be heartened to learn that manager Schroders Greencoat also maintains a long-term outlook for the trust. There looks to be plenty of growth for UKW to aim for, too, as the UK continues to electrify.

Forecast electricity demand is expected to increase by anywhere between 50% and 100% by 2040. This will of course be driven by the continued adoption of electric vehicles and heat pumps, but also data centres, which are crucial in the buildout of artificial intelligence.

Wind will do a lot of the heavy lifting in terms of powering them, with the value of the overall UK wind market expected

to reach £200bn by the mid-2030s, representing a big and potentially underappreciated opportunity for UKW.

The best way for UKW to secure this long-term future is to recycle capital into new investments or reinvestment, something co-manager **Matt Ridley told us was in the pipeline** in a recent podcast. Fortunately, UKW projects significant self-generated surplus capital, which it can use to reinvest in the portfolio, of between £900m and £1.4bn over the period from 2027 to 2031, combined with an already durable balance sheet.

Staying close to its roots

UKW's capital markets day in October fleshed this out. Management and the board outlined four potential routes for investment: acquiring operational assets, extending the operating lives of existing assets, repowering suitable sites and investing at the construction stage.

This has the benefit of providing further diversification to UKW, strengthening the yield profile while also providing the potential for better future growth. We've outlined the characteristics of each of the four pillars below.

The characteristics of UKW's broader toolkit

THE CHARACTERISTICS OF UKW'S BROADER TOOLKIT				
Opportunity	Yield profile	NAV effect	Levered return	Revenue profile
Operational asset	High	Depreciating	Base case of 10-11%, varies by revenue composition	Fixed and variable
Construction asset	Zero, then high	Appreciating	Base case: +50-200 basis points	Highly fixed
Life extension	High	Appreciating	Base case: +300-500 basis points	Variable
Repowering	Variable across project delivery	Appreciating	Base case: +200-400 basis points	Highly fixed

Source: Schroders Greencoat

The operational assets are expected to remain the core of UKW's portfolio, but there are benefits to life extensions and repowering, particularly the chance to make the wind farms more efficient: repowering with newer, larger and more efficient turbines could increase output from suitable sites by approximately 25% to 40%, subject to planning, grid and site-specific constraints.

Despite the tweaks, UKW's proposition will remain faithful to its original design, prioritising its prized well-covered and inflation-linked dividend. The fact that the trust does not require a transformational pivot to continue to deliver for shareholders ensures there is low execution risk in the trust continuing to deliver returns into the future.

In addition, the team is well-versed in everything that this entails: Matt and co-manager Steve Packwood are already experienced in origination, late-stage development and construction, and are supported by a wider team within Schroders Greencoat with an additional depth of expertise.

Taken together, a dividend yield of approximately 8.8% – a meaningful premium to gilt yields across the curve – an implied NAV total return of approximately 10.5% per annum and a share price discount of around 12% present an attractive starting point. These returns are not guaranteed, and the discount has narrowed significantly over the past year, but UKW retains meaningful exposure to the long-term growth in UK electricity demand while broadening the ways in which it can create value from its existing expertise and asset base.

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