The winds of change

The fundamentals underpinning the renewable energy sector appear to remain strong.

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Stock markets across the world continue to trade at record highs, yet geopolitical uncertainty has rarely been as elevated. Generally, it pays to be an optimist when investing, yet sometimes one must consider the wider picture.

One could argue that it's never been more important to find differentiated return sources to global stock indices. To paraphrase a Chinese proverb, when the winds of change blow, some people invest in gold and others invest in wind turbines.

Like equity markets, gold, the hallmark defensive financial asset, is at a record high; perhaps, therefore, the real response from investors should be to look elsewhere.

There's been a lot of change blowing through the renewable energy sector in recent years, yet the fundamentals underpinning the energy transition remain constant. In our view, the sector now presents a clear value opportunity.

There have been a multitude of reasons why renewable energy stocks have performed poorly, most recently sentiment has been hit by uncertainty hanging over the future of the subsidy regime. The government is consulting on the future link to inflation of subsidies, which **you can read a more in-depth article about here**.

Any change would potentially impact net asset values (NAVs) in the listed renewable energy infrastructure sector and, thus, may disincentivise much-needed investment in the sector. Markets hate uncertainty, so it's unsurprising that shares in the sector have derated.

Yet, we think that this misses the constructive long-term picture. Once the fog clears, investors should start reappraising names in the sector, realising that there are more positives moving forward, with entry valuations and potential long-term returns looking attractive.

First, the consultation is just that: a consultation. Nothing has been set in stone. Indeed, this is not the first time Renewable Obligation Certificates (ROCs) have been consulted on.

While the government understandably feels the need to bring consumers' bills down, it must also ensure that there is an attractive environment to secure the necessary investment in the space, so it's entirely plausible, in our view, that we get a 'win-win' conclusion for both bill payers and owners of renewable energy assets. This should give beleaguered share prices a boost.

We also think that the impact of the consultation has been fully priced in by the market. **Greencoat UK Wind (UKW)**, for instance, expects its net asset value (NAV) to be reduced by 10.6p in the worst-case scenario, yet as of 21/01/2026, its share price was c. 9p lower than when the consultation was announced. Logically, anything other than this worst outcome should be seen as good news.

Government support

Fundamentally, government support for the sector remains strong. The government is committed to the Clean Power 2030 (CP2030) Action Plan, its pathway to increase the proportion of UK energy generation produced by clean sources from 63.7% to 95%.

Renewables will play a key part in this transition, as they are the cheapest and most readily deliverable forms of energy. They are also a key plank we have of onshoring and securing the UK's energy supply.

Within this, wind generation is among the cheapest sources of electricity generation, making the sector essential. In a world where the cost of living is a key consideration at the polling station, one can see why the wind sector would be at the forefront of the government's thinking.

The offshore wind capacity in the country needs to grow by an estimated three times and the onshore by 1.7 times in order to hit targets. The government expects annual electricity demand to at least double by 2050, with modelling by the National Energy System Operator suggesting it will rise between 1.9x and 2.7x by then, driven by the electrification of transport, heat, and the expansion of data centre capacity.

This sits against a backdrop of scheduled plant retirements in the next decade, with a quarter of the UK's nuclear fleet and 20% of the gas fleet set to retire. Renewables will be a key part of delivering the UK's electricity for years to come.

The recent Contracts for Difference (CfD) Allocation Round 7 (AR7) was Europe's biggest-ever offshore wind auction, securing a record 8.4GW of offshore wind, enough clean electricity to power the equivalent of over 12 million homes, according to the Department for Energy Security and Net Zero.

The strike price for the CfDs was c. £91 per megawatt hour (MWh), almost 40% cheaper than the £147 per MWh it costs to build and operate a new gas-fired power station, according to the government's own Levelised Cost of Electricity (LCOE) calculations.

Ramping up offshore wind is the only realistic way the UK can hit CP2030 – onshore wind and solar are not as scalable, so the heavy lifting will have to be done offshore. It's encouraging, therefore, that the allocation rounds are improving, after AR5 failed to secure a single offshore wind project.

Predictable and resilient income

Share prices in the renewable energy sector are still languishing. The higher rates on cash in the bank were the initial catalyst for share price deratings and recent uncertainty hasn't been helpful. Still, we've demonstrated that there's a broadly positive backdrop to the sector and we don't think share prices anywhere near reflect this.

The opportunity within wind itself looks attractive, too. UK wind assets provide a diversified source of returns to complement an allocation to global equities, while also offering a predictable and secure income. Perhaps most importantly, the cash flows received are both explicitly and implicitly linked to inflation.

The behemoth of the sector, UKW, is a £2 billion-plus portfolio of quality wind assets, with an experienced management team that has delivered strong NAV total returns. Since inception more than twelve years ago, UKW's NAV is up c. 40%, yet its shares trade below the original IPO price.

In addition, its conservative approach has allowed UKW to demonstrate robust dividend cover and continue to increase the level of the dividend in-line with, or ahead of, UK RPI every year since its IPO.

The structurally high dividend cover means that UKW still has options to deploy surplus cashflows towards new investments, buybacks or reducing debt. We note that UKW continues to buy shares back, illustrating the confidence the board has in strength of the balance sheet.

The final plank of UKW's appeal, for us, is its yield. When interest rates started rising fast, the consequent rise in cash and UK government bond (gilt) rates rendered high-yielding real asset investment companies less attractive. That's no longer the case.

Today, UKW offers an attractive dividend yield of c. 10.4%, almost two and a half times higher than the 10-year gilt yield. Given the shares trade on a discount to NAV of c. 30% and the constructive environment moving forward, we suspect the long and arduous sell-off is now overdone.

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