Moneybag$

# Underpowered Greencoat Renewables ripe for picking

IT IS difficult to know what Paul O'Donnell and Bertrand Gautier – the so-called investment managers in Schroders Greencoat Capital who run Greencoat Renewables for a juicy fee – are up to. They are earning a very handsome fee not linked to performance, while the company's share price has been plummeting. For investors, matters are made worse by the indecipherable accounts and a worrying depreciation policy.

Paul O'Donnell

Moneybags has previously criticised the use of outside managers to run public companies for a fee, as is the case here, where matters are further complicated by the Byzantine accounting structure.

The share price has been running out of energy over the last six months and is now down to 72c, at which it is trading on a 34% discount to the last published net asset value (NAV) of €1.23bn, representing 110.5c per share.

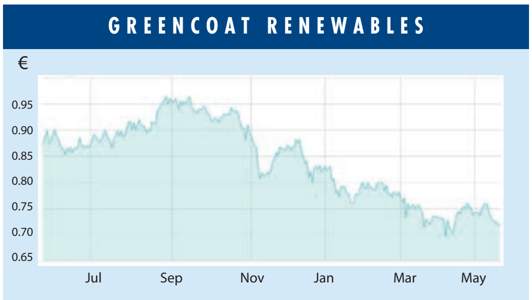
Greencoat is a wind farm investment group, which typically works off 15-year off-take agreements and thus boasts a very stable income base and is attractive for institutions. This is particularly the case given the current (overly generous) dividend payout of 6.74c a share, which means the shares at 72c are trading on a remarkable 9.23% dividend yield.

These types of figures have reportedly attracted the attention of Irish value investor Eamon Waters, who sold out his sprawling waste collection operation, Panda Beauparc, for €1.4bn cash.

As O'Donnell says, the strategy is "to hold assets in its investment portfolio for the long term" but Greencoat is now selling off six Irish wind farms for €156m, following the disposal last November of a Finnish farm for €34m, bringing total asset sales over the last six months to €200m.

This is not what an expanding business does and the justification given – to bring down the group's debt/equity ratio from 54% to 50% – makes little sense for a group that has funded expansion through serial share placings.

It could be, however, that the Greencoat model only really works when interest rates are down around zero. The recent trend upwards has increasingly eaten into returns, with interest charges growing from an upward trending €33m in 2023 by a further 33% last year to €44m. With loans of €1.2bn, it is not going to get easier anytime soon as any earlier low-interest-rate fixes fall away.




Although there was a 2% fall in NAV last year, the company boasts that "total NAV return, including dividends paid, was positive at 4.5%", whatever this means. The obvious question is how can Greencoat possibly pay out a dividend of 6.74c.

Following its 2017 flotation, Greencoat shares traded at a modest premium to its NAV up to September 2024, when the slide began, and they have dropped from 94c on the election of Donald 'Drill, Baby Drill' Trump in October 2024 to the current 72c.

When the 2024 results were published on March 6, the market was certainly not calmed. The report referred to "cash generation of €148.6m", which had fallen back 24% from €196.7m, but the NAV per share had fallen only 1.7% from €1.124 to €1.105, while the dividend was nevertheless increased to 6.74c.

A real challenge for Greencoat shareholders is to try to make sense out of the accounts, which are characterised by "the exemption permitted by International Accounting Standard [IAS] 28". This usually applies to true investment companies, which report on changes in the value of minority stakes in a range of investee companies.

But in Greencoat's case there seems no rationale for adopting IAS 28 as it is a trading company and, in the majority of cases, fully owns its utility operations – mainly wind farms. In the accounts, Greencoat treats each of these wind farms as an individual investment for which the holding company attributes a value based on its own estimates, instead of simply allowing shareholders to see what revenues are generated and what profits are earned after depreciation, interest and tax.

As a result, auditor BDO opts for a "consolidated statement of comprehensive income" in place of a regular profit and loss account. Here, a "return on investments" of €113.8m is reported, down 8% on the previous year. This is made up of interest charged by the parent company to each wind farm, which are all held in special purpose vehicles (SPVs). Last year, the interest charged was €89m, an increase of 29% on the €69m charged in 2023.

These are all internal matters, however, and the parent company could increase or reduce its loans to these operations as it sees fit and it decides what interest to charge the SPVs. In 2024, the average interest charged to Greencoat's own subsidiaries on the loans came to 5.8%, while in the preceding year interest charges came to 4.5%.

To add to the confusion, the annual report states that the internal dividends paid by the SPVs more than halved last year from €83.6m to €41.0m, again without any explanation. This is not the level of disclosure usually demanded by consolidated results.

Greencoat reported total income of €113.8m in 2024, from which operating expenses of €15.5m were deducted. The main element of these expenses is the juicy investment management fee, as provided for in the current contract. The five-year contract was extended in 2022 by the Rónán Murphy-chaired board (where former AIB and Davy boss Bernard Byrne has now joined).

This contract clearly should have been terminated (see *The Phoenix* 8/4/22).

After the contract was renewed, Schroders Greencoat Capital now charges 1% on the first billion of NAV and 'only' 0.8% on €1bn-€1.75bn. This fee is paid irrespective of Greencoat's performance and generated fee revenue of €24m over the last two years alone.

The actual €2.6m cost of

*Continued on page 26*

# Just why is the board trying to sell Dalata?

IT REMAINS difficult to know who is pushing to have Dalata Hotels Group bought out. AS CEO, Dermot Crowley is clearly front and centre but, given his stated strategy, a sell-off would be hard for him to stomach. Also, it is very hard to justify the excuse being put forward by the company for the kicking off of a sales process. The relative lack of committed investors on the share register, however, suggests that a deal could well be done.

Dermot Crowley

Chairman John Hennessy suggests that Dalata's board of directors is pushing a deal. He advises: “We are unanimous in the view that the key to achieving that vision [the group's 21,000 bedrooms target for 2030] is the availability of capital and the share price does not reflect the underlying value of the company. We believe that now is the right time to undertake a rigorous and formal strategic review, which will consider options to increase access to capital and also enhance shareholder value.”

If this was the case when Hennessy issued his statement, with the shares at €4.80, it was even more appropriate through most of last year, as shares drifted down from a peak of €5 at the beginning of 2024 to under €4 by July.

Moreover, if the board is fully committed to its growth strategy to increase its bedroom stock by 70% over the next five years, Dalata should be conserving its resources rather than paying out €27m in dividends and, clearly, should not have lashed out €55m to buy-in its own shares last year.

It is hard to see how Hennessy can stand over his above justification in such circumstances. Indeed, in this light the chairman's statement makes him look simply foolish.

If it is directors' strategy to maximise the company's value ahead of a take-out, Dalata should already have made up its mind whether it is essentially a three-star Maldron hotel group or a four-star Clayton hotel group. More importantly, its dependency on the Dublin market should have been decreased, given that it represents a hefty 44% of last year's total group turnover of €652m.

With its 4,446 bedrooms in Dublin, Dalata has a 15% share of the 29,000 bedrooms in Dublin and Crowley's plan is to increase this by a further 1,500 bedrooms and grow the group's Dublin market share to 20%.

If the CEO wanted to fend off an international hotel group with an eye on Dalata, this is exactly how he might go about it. No big international group would be salivating over a hotel company planning on having 6,000 bedrooms in Dublin and a 20% market share there, when it is already 44% dependent on turnover from the Irish capital, which is also responsible for a whopping 50% of earnings.

Crowley gives some insight into how profitable really big hotels are by disclosing the profitability of its biggest operation – the 608-bedroom Clayton Hotel beside Dublin Airport. Last year it earned an impressive €22m, with the ebitda per bedroom at just over €36,000.

Excluding this, the operation results in a group ebitda of €212m on 11,400 beds, an average earnings per bedroom of €18,600, not much more than half the profitability of the Clayton Dublin Airport business. Yet, nowhere in the annual report does Crowley discuss economies of scale or how they impact on the group.


It could be that selling off the two Dalata hotels in Wexford town at the end of last year is the start of a recycling of capital into larger hotels. For a growing group, however, selling any hotel should fit in with an overall strategy.

The Wexford Maldron hotel has 108 bedrooms and the Wexford Whites hotel has 160. On the basis of economies of scale, these disposals do not fit, given that Dalata has several smaller hotels – for example 92 bedrooms in Dublin's Smithfield Maldron, 90 in the Portlaoise Maldron, 93 in the Maldron in Derry and 89 in the London Wall Clayton.

If size is not the reason that Dalata exited Wexford town, it must be the size of the town. But this does not appear to stand up either, as Portlaoise is smaller and Sligo is pretty much the same size.

It is also hard to explain what Dalata is doing running three small hotels on a management contract basis. Two of these are in northside Dublin, just off Parnell Square, including Donie Cassidy's well-known Belvedere Hotel with 109 bedrooms, a popular GAA spot. The other is Cassidy's slightly smaller Barry's Hotel, which has 83 bedrooms.

It would be interesting to know how Dalata's booking engine distributes bed night enquiries – although, given the level of demand in the capital, this may not be an issue. Barry's Hotel is currently quoting €264 a night, while the 182-bedroom Maldron around the corner is quoting €247 a night, as is the Maldron Smithfield, with the Clayton on Cardiff Lane south of the river at €264.

Two other Dalata operations – the Samuel Hotel on North Wall Quay and the Gibson Hotel adjacent to the 3Arena – are quoting €268 and €363 respectively.

While Dalata's biggest hotel is the huge 608-bedroom Clayton near Dublin Airport, the group does have two other giants – the Clayton on Burlington Road, D4, with 502 bedrooms and the Clayton Manchester Airport, which is currently being extended to 581 bedrooms. These beasts deliver significant economies of scale and drive very profitable food and beverage operations.

It is easy to understand why Dalata bought the former Tara Towers Hotel in south Co Dublin, given the asking price was just €13m. What is harder to understand is why the hotel was then demolished and replaced with a €100m 140-bedroom hotel. This simply cannot justify the outlay

*Continued on page 26*


“Look! Social media for old people !”

# Stocks & Shares

*Greencoat continued from page 24*

running the Greencoat Renewables operation is then separately charged, as well as directors' fees that totalled €616,000, with Murphy taking a handsome €200,000.

According to the auditors, this left Greencoat with a so-called operating profit of €97m, down from €107m in 2023.

## INTEREST COSTS

Then comes the key matter of interest costs on the group's €1.2bn of borrowings, which last year rose over 30% to €44m. This works out at an average interest charge of 3.7%, up from 2.8% in the preceding year. Moreover, the most likely direction in the near future looks to be further upwards.

Significantly, the auditors show in the income account that earnings per share actually fell from 6.61c to 4.5c. Given that the group is paying out 6.74c in dividends this year, costing €73m, this baffling strategy must be eating into Greencoat's reserves.

Moreover, the ability to pay out dividend levels like this is facilitated to a significant degree by a depreciation policy that is clearly underpowered, totalling €5.8m in 2024 when a figure nearer €100m would be more appropriate.

Murphy states that dividends were comfortably covered, not by earnings but by what he calls "gross cash generation", a very unusual concept but one seemingly okayed by BDO.

Greencoat's most recent investment is a 50% stake in the 80 megawatt (MW) South Meath solar farm – the group's first move into solar. There is a power purchase agreement (PPA) in place here with Microsoft, which is also the case for the 37 MW Tullahennel wind farm in Co Kerry. The other Greencoat farms have PPAs in place with the likes of Bord Gáis, ESB, Flogas, SSE Airtricity and Energia. In total they provided net power of 798 MW in Ireland last year.

The refocusing towards continental Europe could be because wind farms there can be acquired for significantly below the approximate €2.5m per MW being demanded by vendors in Ireland. This could be the reason the company stopped publishing what it paid for the power plants acquired since 2021.

Working backwards, Moneybags estimates that Greencoat paid only €1.33m per MW for the 101 MW Erstrask South wind farm in Sweden, presumably because it has a PPA in place worth only €42 per MW, whereas the Irish state guarantees €81 per MW, while in France the figure is €86 per MW.

In June 2022, Greencoat made one of its largest purchases – the 134 MW Erstrask North farm – again without publishing the price.

Rónán Murphy

Seven small wind farms were bought in France at a high price because of the high state subsidies but these bring no economies of scale. The two farms bought offshore Germany, however, were huge, with Borkum Riffgrund 1 delivering 312 MW of power, of which Greencoat takes 50%. It also has a 38% stake in the 288 MW German offshore farm, Butendiek.

Germany now accounts for 22% of Greencoat's portfolio, the largest after Ireland's 57%.

Despite its short-comings and impenetrable accounting, Greencoat does have a solid asset base that is no doubt worth approximately what the company claims. This explains the potential interest of the likes of Eamon Waters as the share price struggles at a 32% discount to NAV.

The factors that have pushed the share price down in recent months include a 2% reduction in the value of Greencoat's assets and the rise in interest charges.

It could be an opportune time for predators to strike.

*Dalata continued from page 25*

when compared with a simple upgrade of the original property.

Then there is the small continental hotels division, which Crowley plans to grow to over 14,000 bedrooms over the next decade. He has brought in two leased hotels – the 393-bedroom Clayton in Düsseldorf , Germany, and the 173-bedroom Clayton Amsterdam in the Netherlands – and has signed up to lease a new 243-bedroom Clayton hotel in Madrid, near Adolfo Suárez Airport, but it won't open until 2029.

## MAJOR DIVERSION

The 14,000-bedroom expansion plan for mainland Europe represents a major diversion of Dalata's resources but the performance so far is less than stellar. Last year the hotels earned an average ebitda of €19,430 per bedroom, which does not justify a plan to roll out across Europe to the likes of Rome, Brussels, Frankfurt, Prague, Vienna, Copenhagen and Stockholm. Oddly, France does not feature.

It is in this overall context that Dalata appointed Rothschilds to find a buyer, with several parties believed to have declared a valid interest by the May 1 deadline.

Dalata shares were floated off at €4.50 in 2017 and hit a peak of €7.25 in July 2018 before the pandemic-induced nadir of €1.76 in March 2020. Then CEO Pat McCann did manage to get away a €94m share placing in September 2020 at €2.55, one-third of the price just two years earlier, causing 20% equity dilution.

That fundraiser opened the door to aggressive shareholders such as Helikon Investments, which specialises in identifying undervalued stocks and is now sitting on a chunky 16% stake. If there is any doubt over management – the 14% fall in pre-tax profits last year to €91m is surely a worry – Helikon will be eager to exit, particularly when it can more than double its money.

This is surely also true of the Saudi Zahid group, which has 10%, and also Norwegian property outfit Eiendomsspar, which sits on an 8.5% stake.

The largest holder pre-pandemic, Ameriprise, has fully sold out its 9% share, while Fidelity has 4.99%, down from 5.93%. Likewise, JP Morgan Chase is down at 3.74% from 5.53% at the beginning of this year.

John Hennessy

At today's share price of €5.70, Dalata is capitalised at €1.21bn and is standing at a 15% discount to the group's net asset book value of €1.4bn, represented by a net asset value per share of €6.75. Nevertheless, the shares are currently standing on a not unreasonable price-earnings multiple of 16.

A private equity buyer might see an opportunity here to significantly rationalise the whole Dalata operation, disposing of all the smaller hotels and dramatically reducing the Dublin focus, aiming for fewer but more profitable larger hotels – a model that could be rolled out around Europe.

On the other hand, Dalata may be structured in such a way today that the group is simply indigestible.

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