

# Panmure Gordon

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Issuer Sponsored Non-Independent  
Investment Funds Research

NOT RATED

## HydrogenOne Capital Growth

### Stable performance despite headwinds

#### Rating Nature: Relative

##### Key Data

Share price	85.10p
Dil. NAV	96.24p
Dil. discount	11.9%
Market cap	£108.86m
52-week range	121-83p
Sector	Investment Funds
Stock codes	HGEN.L / HGEN LN
Last published research	21 September 2022

Source Refinitiv, Morningstar

#### Published Research

- ▶ Please see our HydrogenOne Capital interims update note [Diversified & delivering](#) published in September.
- ▶ Please see our HydrogenOne Capital initiation note [Fuelling Up](#) published in December.
- ▶ For more detail on the hydrogen economy and the specific opportunity from a managed funds perspective please see our previous note [Hydrogen – an emerging renewables sub-sector](#).

This morning, HydrogenOne Capital Growth plc (HydrogenOne), the first London-listed fund investing in clean hydrogen for a positive environmental impact, reports a Q3/22 (ended 30 September 2022) Net Asset Value (NAV) per share of 96.49p, broadly similar to Q2/22 (ended 30 June 2022) at 96.85p. Pleasingly, a revaluation of multiple positions in the Company's private investments offset the negative impact of higher Government bond yields increasing the Company's discount rate.

The portfolio remains well-diversified with invested companies continuing to perform steadily. With strengthened support in key jurisdictions such as the US through the Inflation Reduction Act (IRA), we view the current 11.9% discount as unjustified for a managed, pureplay fund successfully investing into ever-dominating themes.

- ▶ **Pleasing NAV performance:** NAV per share as at 30 September 2022 was 96.49p, broadly similar to the previous quarter (30 June 2022: 96.85p) with a positive impact of 1.51p (1.5%) on the NAV per share from the re-valuation of multiple positions in the Company's private investments (before the application of revised discount rates). Higher yields on Government bonds resulted in increased discount rates for the Company, negatively impacting NAV per share by 1.43p.
- ▶ **Conservative valuation assumptions:** Heightened macro-economic volatility continues to create a challenging investment environment, but the Company continues to use conservative assumptions when valuing its private assets. Given a significant weakening of Sterling against the US dollar and the Euro and a substantial increase in long-term government bond yields over the last six months, particularly in the UK, the portfolio's weighted average discount rate has increased to 12.84% (30 June 2022: 12.38%).
- ▶ **New investment:** During the quarter, the Company continued to deploy capital in high quality private equity positions and has further developed its >£500m pipeline of opportunities. A new £8.4m private investment in offshore hydrogen and CO<sub>2</sub> pipeline leader Strohm Holding B.V. was completed bringing the number of private portfolio positions to nine. In total, an aggregate of £103.2m capital has been invested to date in low-carbon growth. See the 30 September 2022 factsheet for more [here](#).
- ▶ **Cash:** The Company's cash reserves decreased by £7.5m from the previous quarter to £22.4m, largely as a result of the deployment of £8.4m in a new private equity position in Strohm, divestment proceeds on listed equities and fund-related costs. Total net assets decreased by 0.4% from the previous quarter to £124.3m.

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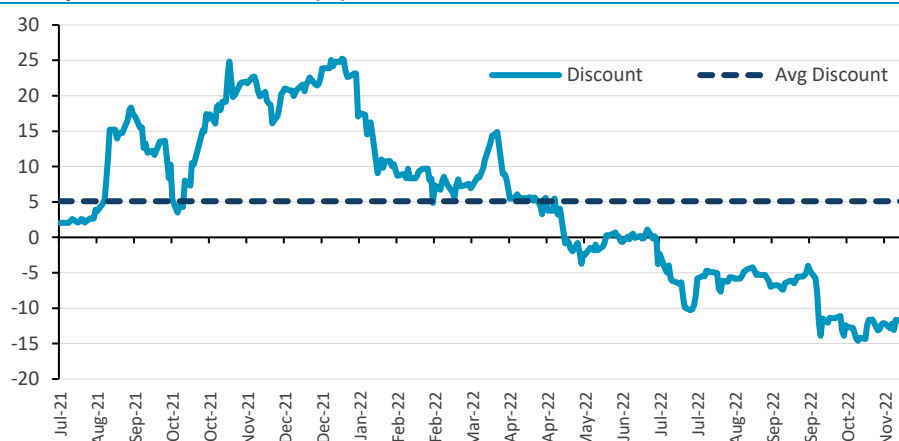
### Stable performance of portfolio companies, despite macro-economic headwinds

Company	Business	Progress in Q3/22
Sunfire	German industrial electrolyser producer	Successfully completed the EU funded project Green Hydrogen for Green Steel, the world's largest high temperature electrolyser with a record production of almost 100 tons of green hydrogen for the climate-neutral production of green steel.
Bramble Energy	UK-based fuel cell and portable power solutions company	Awarded UK Government funding to help decarbonise the maritime sector; and Secured funding from the Advanced Propulsion Centre (APC) as part of the Automotive Transformation Fund – a programme supporting large-scale industrialisation to build electrified supply chains in the UK.
Cranfield Aerospace Solutions	UK-based passenger flight innovator powering turboprop flight with hydrogen	Secured investment from the Strategic Development Fund, the investment arm of the Tawazun Economic Council of the UAE, and Motus Ventures. Current investment = £14.4m.
NanoSUN	UK-based developer of hydrogen distribution and mobile refuelling equipment	Launched its new hydrogen cooling technology to deliver a reliable, low-cost, cooling solution for operators of hydrogen transport vehicles and static hydrogen refuelling stations; and Signed an agreement with Czech Republic Partner Hydrogen Systems to deliver sustainable hydrogen refuelling solutions to central Europe.
HH2E AG	German green hydrogen project developer with a focus on industrial customers	Continued with proposed development plans of its clean hydrogen projects in Germany.
Gen2 Energy	Norwegian green hydrogen project developer	Continued with development plans of its two production facilities for large scale production and shipping of green hydrogen in Norway: 100MW in Nesbruket and 500MW in Holandsvika.

Source Company, Panmure Gordon

- ▶ **Widened discount:** HydrogenOne shares reached a 25.5% premium to NAV in January 2022, but consistently traded down to a low-point of a 10.3% discount to NAV in mid-August. The discount narrowed at the start September trading at around 5% for much of the month until disappointing news from ITM Power resulted in further uncertainty in the sector causing the discount to widen to record highs of 13.9%.
- ▶ **Attractive entry point:** HydrogenOne remains the only UK listed investment trust with a mandate to invest in a diversified portfolio of hydrogen and complementary hydrogen-focused assets principally in developed markets, targeting a NAV total return (TR) of 10% to 15% per annum. We view the current 11.9% discount, versus an average share price premium of 5.1% since listing, as a highly attractive entry point for investors looking for managed, pureplay exposure to the ever-dominant themes of energy transition and security.

### Share price discount to NAV (%)



Source Morningstar, Panmure Gordon

- ▶ **Article 9 Fund:** Also, this morning, HydrogenOne announces that is now classified as an Article 9 Fund, the highest classification under the EU Sustainable Finance Disclosure Regulation (SFDR), reflecting its sustainable investment objective and practices and has also become a signatory of the United Nations-supported Principles for Responsible Investment (PRI). With its new classifications and signatories, the Company is focused on meeting its investment objectives as it continues to deploy capital in the over £500 million of opportunities that it has identified.

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