



**Aggregated Micro Power Infrastructure 2 plc (“AMPIL2”) GREEN BOND Ticker: AMPILT**

Isin	Issue Size	Issuer Short Name	Coupon	Min Piece	Maturity	Next Call	Offer	YTC <sup>†</sup>	YTM
GB00BYVQM755	£155m	AMPIL2	8.00%	£1	Oct 2036	Anytime at 125 and at 104 from 19 Oct 2021*	102	11.07%	7.85%

\* Subsequent call schedule: 103 from 19 Oct 2022; 102 from Oct 2023; 101 from Oct 2024; par from Oct 2025 onwards. † Oct 2021

**Business**

Aggregated Micro Power Holdings Limited, trading as AMP Clean Energy (“AMP”), develops, owns, and operates renewable energy generating facilities. Its strategy is to develop and manage low carbon distributed energy projects in the UK, principally via non-domestic biofuel boilers and flexible power generation. The assets are held separately within an on balance sheet SPV. Prudential acts as the security agent.

AMP was AIM-listed until Asterion Industrial Partners acquired it via Fossa HoldCo for £63m in late 2019, representing a c.30% premium. Asterion was founded by ex-KKR infrastructure directors and operates in the mid-market infrastructure space. It closed the inaugural Asterion Industrial Fund at €1.1bn.

AMPIL 2	
<p><b>BIOFUEL BOILERS</b> Non-Domestic Brands - AMP Clean Energy, Forest Fuels</p> <ul style="list-style-type: none"> <li>• 20-year energy supply agreements (Take or Pay).</li> <li>• 136 boilers installed with combined thermal output of 46MW. Owned directly or supporting note guarantees.</li> <li>• Government-backed via RHI subsidy linked to the boiler. Long term, stable cash flows.</li> <li>• Burning woodchip &amp; pellet to heat (&amp; sometimes power) care homes, schools, greenhouses, &amp; factories.</li> </ul> <p>UK market consists of 19,000 accredited boilers; consolidation opportunities £15m-20m p.a. 950 boiler service &amp; maintenance clients. Typically £100k-£2m cost. Offtake priced to cover fuel costs - gross margin is RHI &amp; equates to 50% of revenue per asset. Cost increases can be passed on under heat supply agreements (index-based).</p>	<p><b>FLEXIBLE POWER GENERATION</b> Grid Balancing Brand - Urban Reserve</p> <ul style="list-style-type: none"> <li>• 15-year minimum price floor with Statkraft.</li> <li>• 13 reciprocating 2-6 MW gas engines permitted, 4 installed and operating; supporting note guarantees.</li> <li>• Urban environments, typically industrial &amp; commercial estates.</li> <li>• Intermittent, local distribution at peak hours or out of hours when the national electricity grid is constrained.</li> </ul> <p>Pipeline to develop c.100MW p.a. as renewable energy has intermittent loss in energy production (wind; solar). AMPIL has first mover advantage in growth market. Typically £1.5-£3.0m cost.</p>

AMPIL2 seeks to develop waste heat recovery projects, but boilers and grid balancing predominate. AMP focused on originating and developing smaller projects when growth in the larger biomass systems market stalled during 2017, but is capable of executing large installations as well. For example, AMP is currently installing a £16.5m low carbon energy centre for Muntons, a leading malt product manufacturer and distributor. It will increase AMPIL2’s installed boiler project base by around 30% (14MW) and comes with a long-term energy supply contract. Commissioning is scheduled for mid-2021.

Statkraft AS (S&P: A-, stable) is Europe’s largest renewable energy generator, operates globally, and is 100% owned by Norway. In AMPIL2’s context Statkraft is an energy market optimiser that bids on intraday, day ahead, and energy balancing markets in the UK. It provides the revenue floor for Urban Reserve assets.

AMP also owns businesses that support its asset management strategy:

- Wood fuels distribution: supplying around 4,000 commercial boiler systems. AMP aims to distribute 110,000 tonnes of wood pellet and 50,000 tonnes of wood chip per year, representing c.20% of the biomass heating

market (excluding users of utility size wood fuels). AMP's Forest Fuels is the UK's market leader for fuels in <1MW boilers.

- Service and maintenance: c. 950 non-domestic biomass boilers systems.
- Management services.

The UK has legislated to remove baseload coal power generation by 2025, and new nuclear energy generation has stalled in practical terms. Battery storage is still some way from being fully feasible, so as the renewable share of the country's grid expands, intermittency and volatility on the network dramatically increases. There is a growing need for flexible, local power generation as an efficient alternative to large, costly capex spend on the national grid and transmission system. AMPIL2 has 13 permitted reciprocal gas engines, with four now up and running. Urban Reserve's first two operating assets generated £1.57m of revenue and £736k of EBITDA in the nine months to December 2020 versus £3.38m of capex. Once in operation, Urban Reserve assets produce EBITDA of £18k per MW, which is a 13% yield on the capex spent per MW. The price offtake agreement between Urban Reserve and StatKraft runs for 15 years from when each asset is commissioned and includes a minimum income guarantee that underpins 90% of the capital costs for each MW installed.

### **Funding                      £250m Programme                      Tap issues during ramp up – amortising from 2022 to match income**

AMPIL2 has raised £155m starting with £12.4m via AMPIL 1 in July 2015. All AMPIL 1 notes were exchanged for AMPIL2 notes as part of a larger capital raising in October 2016. There have been several tap issues since then. The first Urban Reserve projects were initiated in 2017.

The £155m outstanding consists of £109m in the public domain, £20.5m retained in treasury, and £25.1m held by AMP. AMP's notes do not pay interest and are subordinated to the public notes in the collateral pool. AMP is seeking to refinance notes with bank debt as the portfolio matures. It is possible that process will go beyond the October 2021 call at 104, but unlikely to stretch to the October 2022 call at 103. We expect AMPIL2 to issue a £5m tranche at 102 in March or April 2021, at which point an update on bank financing should be imminent. Assuming the mature portfolio is refinanced with cheaper bank debt secured by the income generating assets, new development financing – an AMPIL 3 – could follow a similar path to AMPIL2.

If for whatever reason refinancing does not occur, annual amortisations are due to start on 31 December 2022. Amortisation is set at 10.5% less the coupon, i.e. 2.5% p.a. Excess cash is expected to be generated. At maturity in 2036 40% of the principal will remain outstanding to either redeem or refinance.

### **Performance**

The ramp up and investment is evident in statutory accounts filed since AMPIL2 was established in 2016. Total assets grew from £11.6m to £65.6m over the first four years of the structure. Plant and equipment was £42m in 2019. Project assets are all on the balance sheet at cost and the loan notes comprise all the debt. The peak of ramp up losses came in 2018. Cash flows remained significantly negative during the asset building phase and have been met by the loan notes drawn to date and Asterion cash of around £25.1m as of early 2021.

In the following table we can see the shift to income generation started in 2018 and progressed in 2019 with the turnaround in EBITDA and small operating profit.

Aggregated Micro Power Infrastructure 2 plc	GBP thousands			
KEY METRICS	31-Dec-16	31-Dec-17	31-Dec-18	31-Dec-19
Revenue	1,309.0	2,577.0	3,742.0	5,402.0
EBITDA	583.0	75.0	(893.0)	1,467.0
Operating Profit	358.0	(490.0)	(1,864.0)	190.0
NPBT	(658.0)	(4,355.0)	(4,897.0)	(4,212.0)
Cash & Equivalents	1,266.0	13,422.0	11,244.0	9,601.0
Total Debt	12,021.0	50,746.0	50,870.0	78,444.0
Tangible Net Worth	(1,051.0)	(5,393.0)	(10,196.0)	(14,325.0)

## Current year ending 31 March 2021

AMPIL2 is shifting its year end to March to align with Asterion's reporting, which coincides with Covid-19 impact. Even so, despite initially expecting a 20% reduction in revenue from the first hard lockdown (March - June 2020), the business held up considerably better than expected. Although 46% of the boiler customer base is in the hard-hit sectors of hospitality, leisure and education, and a further 14% is general commercial customers, heating needed to be maintained at a basic level for most. Some customers, e.g. agriculture, saw substantially increased requirements. Overall, operating assets are producing the expected EBITDA margins year to date despite the challenges. February's cold snap also helps.

Management accounts for the actual nine months to December 2021, combined with a high confidence forecast for the final three months of FY 2020-21, indicate the following:

- Revenue £7.2m, EBITDA of £3.6m and a loss after tax of just under £5.6m. Actual results for the 9m to December show revenue roughly £600k ahead of budget, translating to a loss after tax almost £300k better than planned.
- Operating cash flow is expected to be slightly over £1.7m. Funds raised via notes and from Asterion covered the £28.4m of investment made and £8.0m debt servicing.
- Externally held notes total £109m, with £25.1m non-interest bearing notes retained by AMP, and £20.5m of notes held in treasury and available for sale in the near short term. Cash is around £20m at the time of writing, although it is largely obligated to capex commitments.

Although revenue is currently split roughly 70% biomass boilers to 25% flexible generation & other, that will shift more towards flexible generation in FY 2021-22. Management figures in the table below demonstrate the major shift from developing assets during 2019 and 2020 to operating assets and the resulting strong EBITDA and cash flows expected. It shows a mix of historic and forecast annual figures for the years ending March, drawing on commissioning schedules. Figures are unaudited. Revenue in FY 2021-22 should rise substantially to £23.7m, with EBITDA over £12m and a loss after tax of just £1.6m, before further income growth and net profit arrive in FY 2022-23, when the first amortisation of the loan notes is scheduled (£2m) if bank financing has not already redeemed current funding. Directors expect to meet their covenants, particularly the annual 1.1x DSCR covenant, when it comes due in June 2023.

Income Statement (£)	2019/20	2020/21	2021/22	2022/23	2023/24
Revenue	6,347,299	7,205,235	23,675,333	32,311,671	34,021,682
Cost of Sales	(2,640,897)	(3,145,159)	(11,247,006)	(15,551,714)	(16,379,660)
Biomass - EBITDA	3,431,460	3,006,210	6,488,411	7,884,082	8,277,710
Solar - EBITDA	113,062	317,504	-	-	-
Flexible generation - EBITDA	161,880	736,362	5,939,916	8,875,874	9,364,311
Project EBITDA	3,706,402	4,060,076	12,428,327	16,759,956	17,642,021
Overheads	(837,942)	(460,489)	(404,860)	(411,612)	(416,746)
Company EBITDA	2,868,460	3,599,587	12,023,467	16,348,345	17,225,275
Depreciation / Amortization	(1,466,312)	(1,653,127)	(3,703,992)	(4,043,824)	(4,444,623)
Interest	(5,441,037)	(7,521,028)	(9,942,000)	(10,352,000)	(10,188,800)
Tax	-	-	-	-	-
<b>Profit after tax</b>	<b>(4,038,889)</b>	<b>(5,574,568)</b>	<b>(1,622,525)</b>	<b>1,952,521</b>	<b>2,591,852</b>
<b>Cashflow</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>
Cash Flow from Operations	1,028,386	1,742,309	14,402,251	16,254,103	17,904,041
Cash Flow from Fundraising	28,000,000	75,000,000	-	(2,000,000)	(2,160,000)
Cash Flow from Investment Activities	(21,566,080)	(28,383,125)	(47,434,458)	-	-
Cash Flow from Debt Service	(6,007,812)	(7,932,028)	(9,942,000)	(10,352,000)	(10,188,800)
Total capital deployed	51,835,301	78,792,985	122,653,772	118,740,270	115,805,144
AMPIL Loan Notes held by external investors	80,000,000	107,400,000	107,400,000	105,400,000	103,240,000
AMPIL Loan Notes in Treasury available for sale		22,500,000	22,500,000	22,500,000	22,500,000
Non-interest bearing Loan Notes held by AMP		25,100,000	25,100,000	25,100,000	25,100,000
<b>TOTAL Loan Notes in issue</b>	<b>80,000,000</b>	<b>155,000,000</b>	<b>155,000,000</b>	<b>153,000,000</b>	<b>150,840,000</b>

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## Current & Future Value

AMP's management has continued to develop assets in AMPIL2, albeit more slowly than planned as the construction industry essentially closed down for around three months. At the end of March 2021 the portfolio should consist of:

- Operating assets – £32.1m made up of £16.9m boilers, £13.5m flexible generation, and a £3.5m loan to Forest Fuels.
- Development assets – £45.3m (£13.2m boilers, £32.1m flexible generation.)



Development assets are a large chunk of the portfolio and are now starting to produce income. Portfolio assets are on the balance sheet at cost. Using an average discount rate for the asset portfolio of 6.7% is in line with comparable listed REITs' average discount rates of 6-8%, and results in a valuation of £171m, rising to c.£212m in FY 2021-22. Compared to debt of £155m if/when fully drawn gives an LTV of 73%, but on the basis of externally held plus treasury notes of £129.5m, LTV would be 76% in the current year, falling to 61% by March 2022.

## View

Management and AMPIL2 have performed on track or better in building the asset base and moving swiftly towards a mature, income producing portfolio. In the event of bank financing being arranged within the coming twelve months, existing noteholders will have a short route to a tidy return. Should bank financing not be arranged in the short term, the structure remains on track to commence amortisation as planned in 2022, providing a solid return to investors, with considerable asset backing that is largely hidden in the balance sheet.

Please contact the desk if you have any questions.

**Penelope Fitzherbert**

4<sup>th</sup> March 2021

## For Reference

AMP Clean Energy [AMP Clean Energy | Biomass Heat, Clean Energy Funding, Urban Reserve](#)

Asterion Industrial Partners [www.asterionindustrial.com](http://www.asterionindustrial.com)

Muntons – New Energy Centre [Muntons Set to Decarbonise 100 Million Kilowatt Hours of Heat with New Energy Centre - Muntons](#)



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