



# SOHN

MONACO

INVESTMENT CONFERENCE • 2025



# KNIGHT VINKE

## SSE (Scottish and Southern Energy) plc

- > greater focus on synergies at home
- > aligning strategy with UK public policy

Sohn Investment Conference (Monaco)  
12 June 2025

# 1. Introduction to Knight Vinke

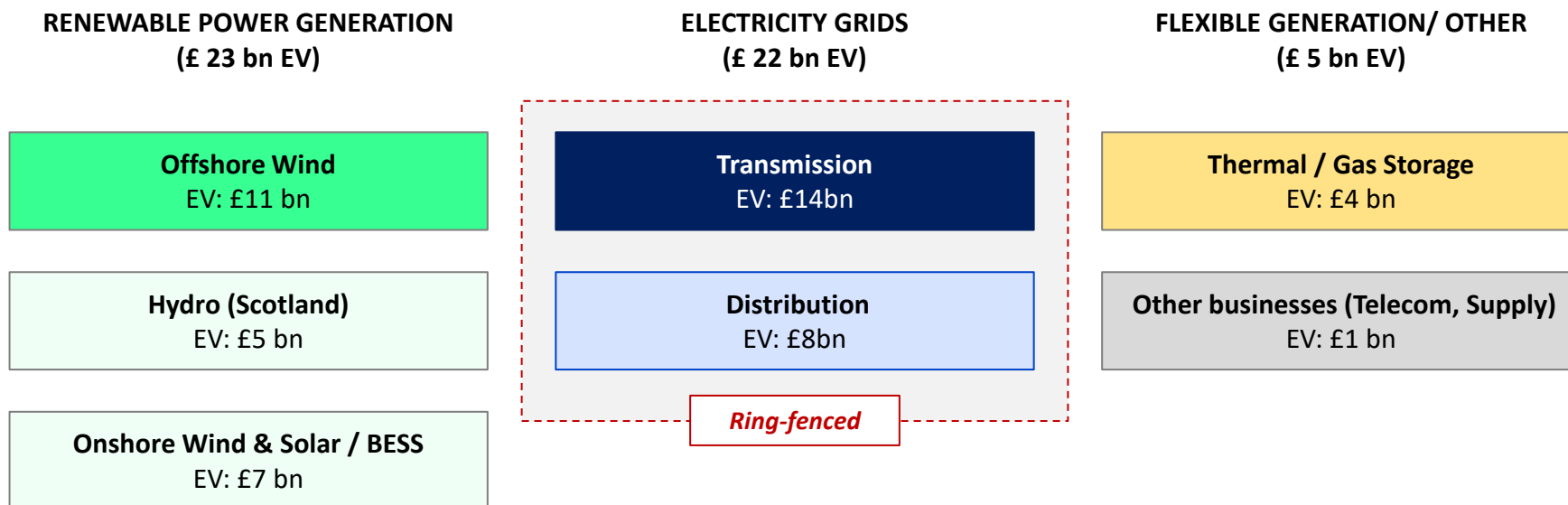
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- **High impact (“activist”) investor**, based in Monaco and Zürich, specialising in large cap public equities
- **Minority positions only** (“strategic block investing”); works closely with the board and management, government, regulators, unions and other stakeholders
- **Consensual approach**: Knight Vinke has never had to resort to a shareholder vote to achieve its aims
- **Continuity**: 22 years under same management; unchanged deep value investment philosophy
- **Energy Transition Fund**: launched in April this year; open for subscriptions



## 2. Introduction to SSE, the UK's Green Energy Champion





- SSE (£ 20 bn market cap) is a publicly traded energy conglomerate, headquartered in Perth, Scotland.
- It owns leading businesses in two of the most attractive and fastest growing segments of the Energy Transition:  
**Offshore Wind** and **Power Transmission**



SSE sold its UK Retail Supply business (3.5m customers) in 2020.



### 3. Offshore Wind is the fastest growing segment within renewable power generation

	UK Govt Clean Power 2030 Action Plan	CAGR (25-30)
 Offshore Wind	" <b>Quadruple</b> offshore wind with an ambition of 55GW by 2030, "pioneer floating offshore wind, by fast-tracking at least 5GW"	30%
 Solar	" <b>More than triple</b> solar power to 50GW" by 2030	25%
 Onshore Wind	" <b>More than double</b> our onshore wind capacity to 35GW"	20%
 Hydrogen	"Double the government's target on green hydrogen [from electrolysis], with 10GW of production" by 2030	

The Government's Strategy sees Offshore Wind becoming the backbone of the UK's electricity system by 2030 – an extraordinarily opportunity for SSE given its position and huge barriers to entry

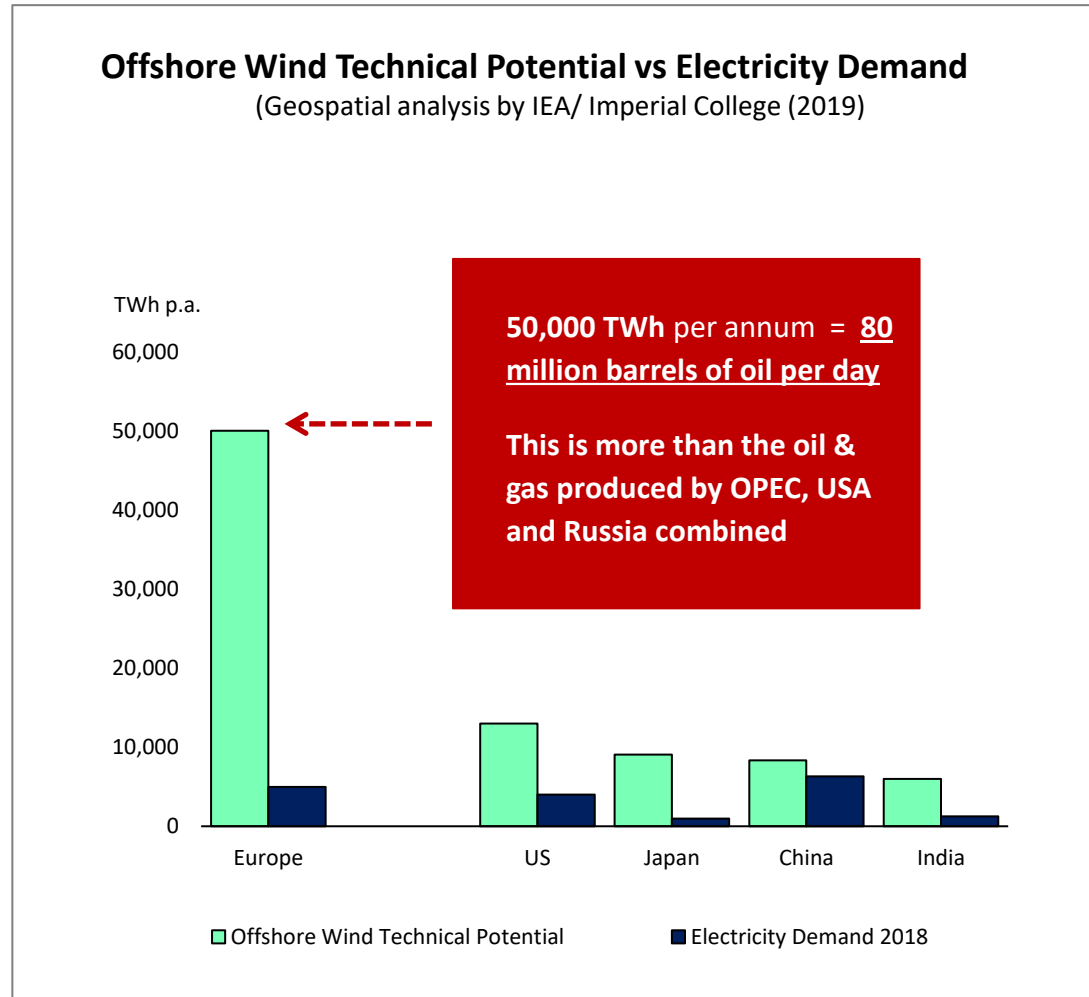


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## A. The opportunity we see for SSE in Offshore Wind in the North Sea



## 4. Offshore Wind in the North Sea: a vastly under-rated energy resource



## 5. Offshore Wind in the North Sea: how much is it worth?

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How much value might the financial markets place on North Sea Wind?

**(A) Compare with Aramco:**

- Aramco has \$ 1.7 trillion enterprise value and produces 12.9 million barrels of oil per day.
- By extrapolation, an energy resource producing 80 million barrels of oil per day might be worth **\$ 10 trillion ...**

**(B) Adjust for reserves being inexhaustible**

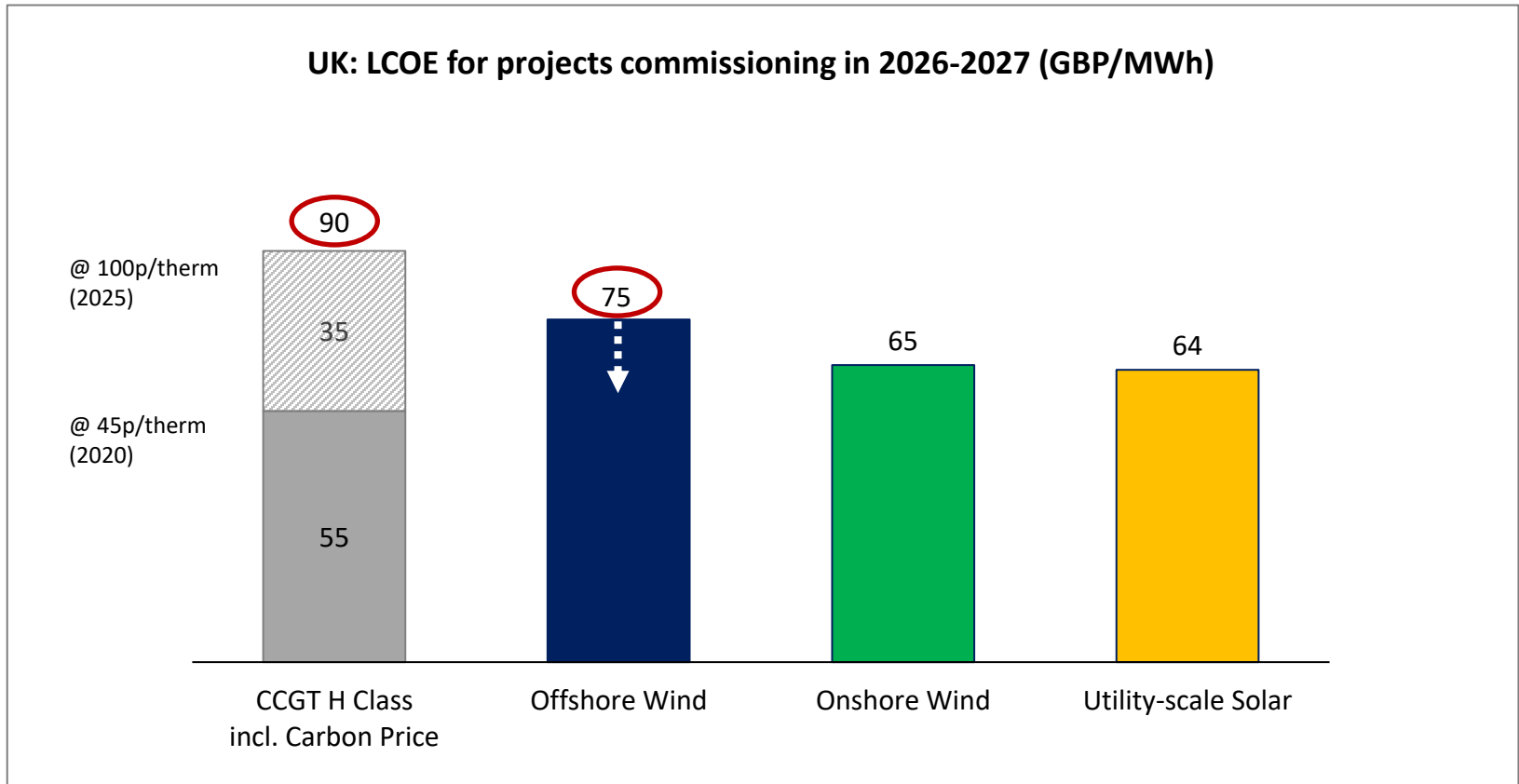
- Offshore Wind is not depleted by production – **so worth at least 10x more!**

**Huge opportunity for the first company to step into the shoes of BP, Shell, Orsted and others retreating from Offshore Wind in the North Sea**





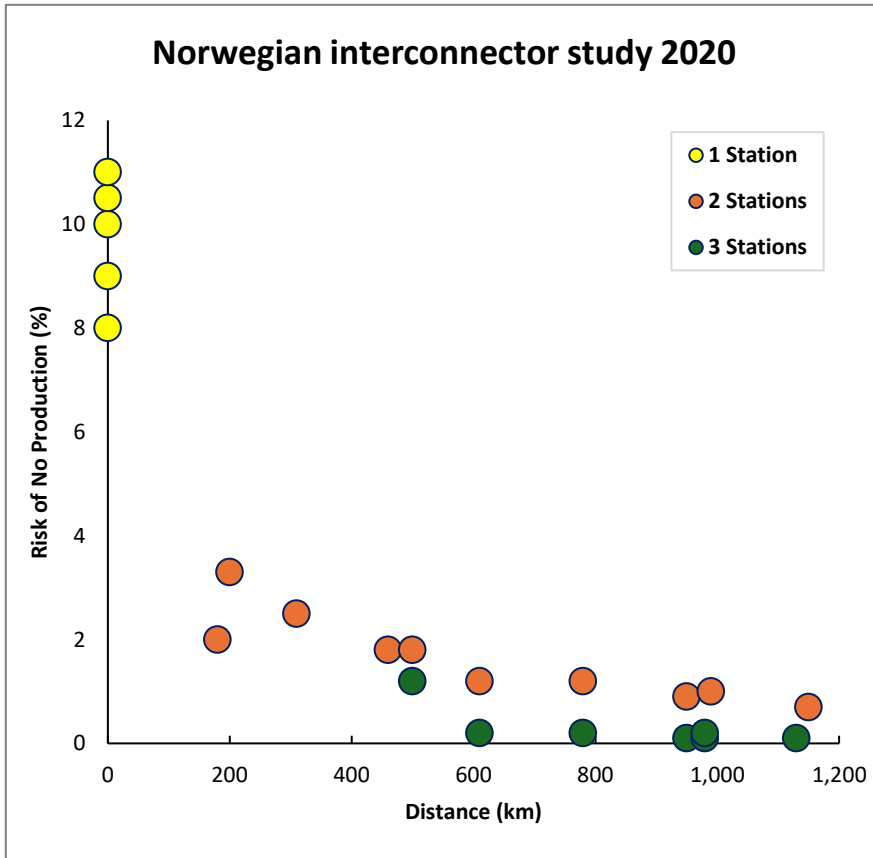
## 6. Offshore Wind is competitive with CCGT (gas at 100p/therm)



**Economies of scale will continue reducing the costs of Offshore Wind**



## 7. What about intermittency?



**Intermittency of Wind and Solar power is the main challenge facing Energy Transition today**

- Mainly addressed by adding **fossil fuels** (which pollute) but also **grid-scale batteries**
- In the case of Offshore Wind intermittency can be mitigated by **inter-connecting wind farms using existing or additional subsea cables**

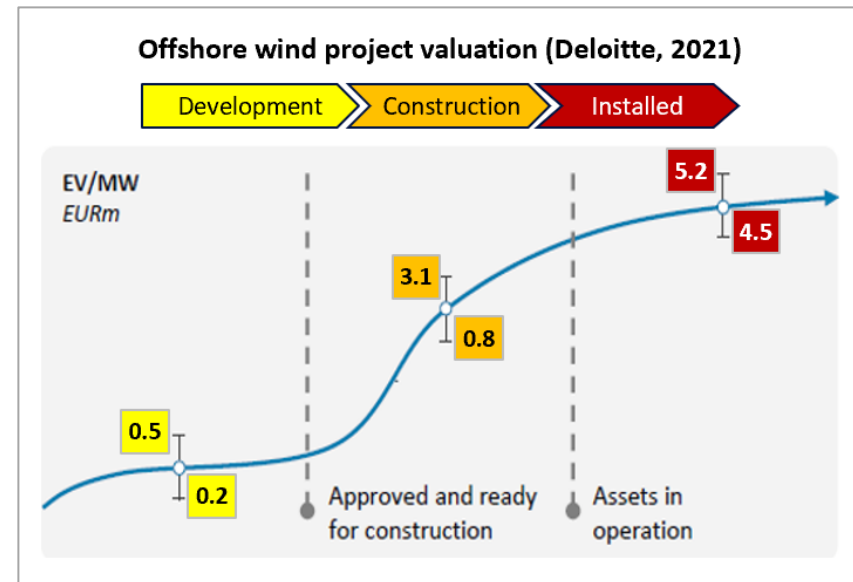
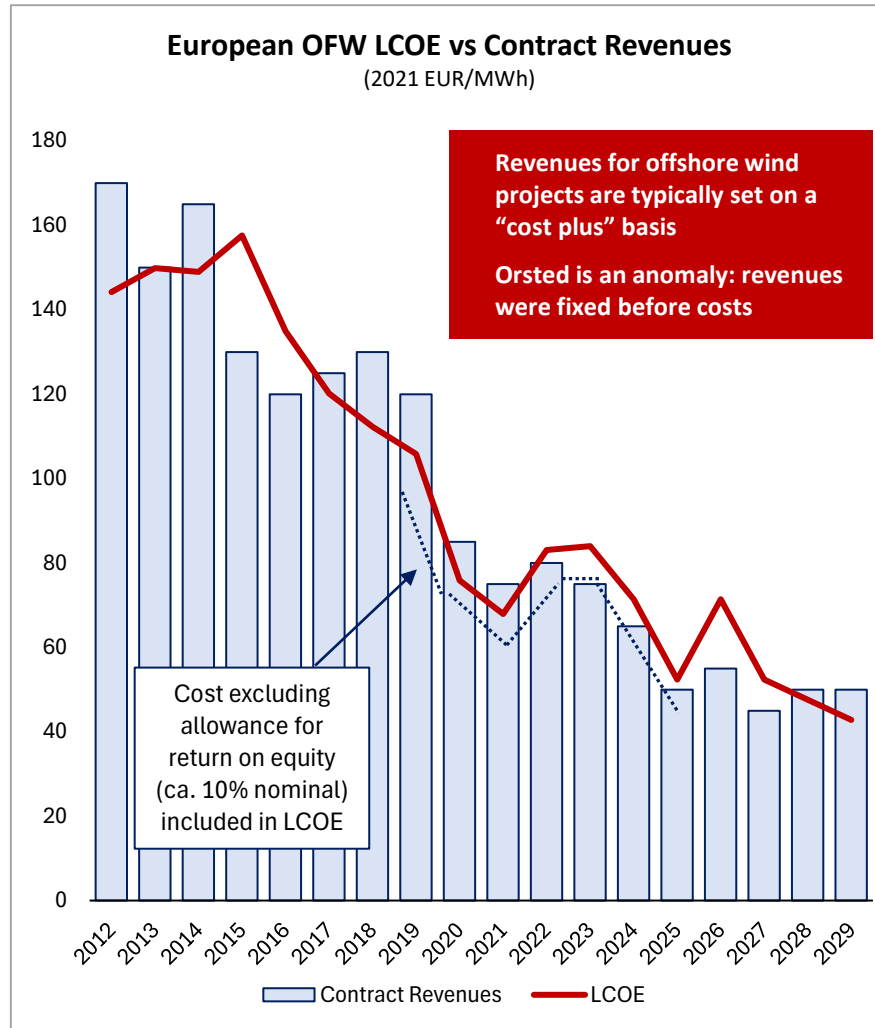
**Probability of shutting down declines as uncorrelated wind flows are added to the mix:**

- With a single station, the intermittency risk of zero production is 8-11% (see **yellow** dots)
- With 2 stations, the probability declines to 2-4%, falling to 1% at 600km (see **red** dots)
- With 3 stations at 600km, the probability of no production goes to zero (see **green** dots)

**Subsea cables are cheaper than grid-scale battery systems, require fewer permits when located in international waters and are more permanent**



## 8. Offshore Wind is fundamentally a low risk business (...but what about Orsted?)



- Offshore Wind projects carry low risk (i) during early development stage (**very little capital committed**), and (ii) once construction has started (**costs and revenues contractually fixed and profit locked in**)
- Value of assets under construction/ in operation may vary with interest rates – **even if costs and revenues are fixed** – but this can be hedged by the asset owner
- Offshore Wind is **far** less risky than offshore oil & gas



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## B. The opportunity we see for Investors in Regulated Power Networks in the UK

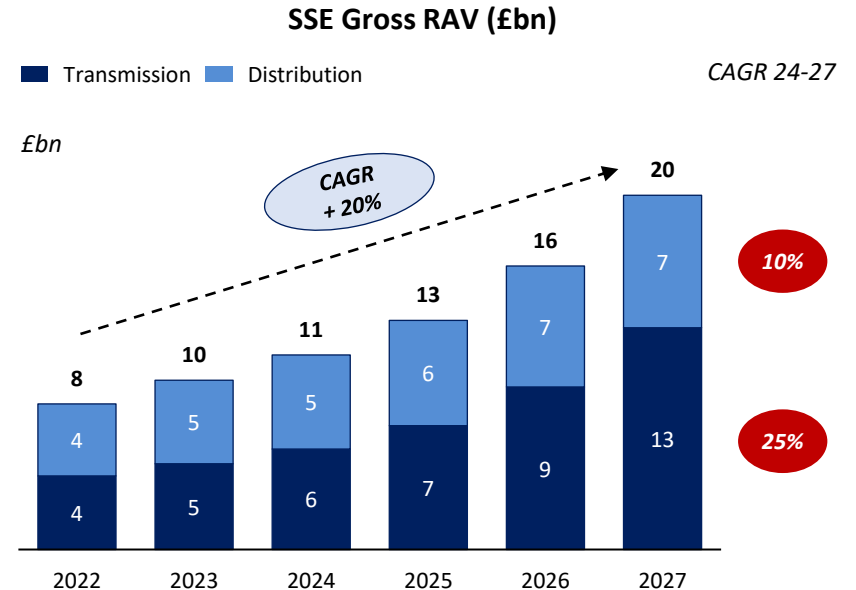


## 9. Energy Transition is transforming many utilities into genuine growth companies

### Power Generation vs Transmission Capacity in Scotland

- Peak demand for electricity: **ca. 3 GW**
- Generation capacity: 15 GW, rising to **25 GW** by 2030

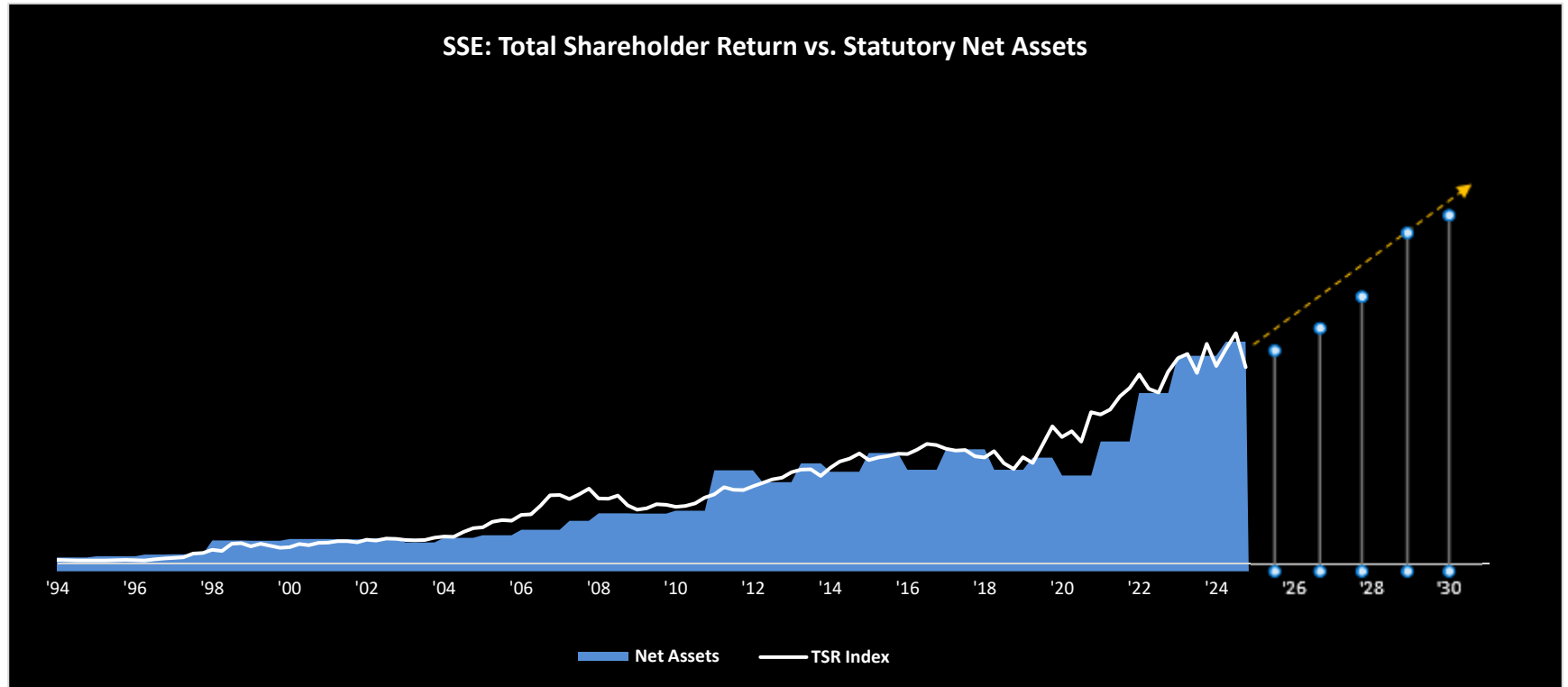
**Surplus electricity needs to be exported (or demand needs to migrate)**



**SSE Transmission is the fastest growing such business in the world (RAV growing at 25% per annum)**



## 10. Regulated Networks are extraordinary investments, offering uncorrelated upside...



- **Total Shareholder Return for Regulated Network stocks is best explained by Statutory Net Assets – not interest rates, dividend yield or regulatory earnings as is often believed.**
- **These are uncorrelated with equity markets and (being regulated) are visible several years in advance**

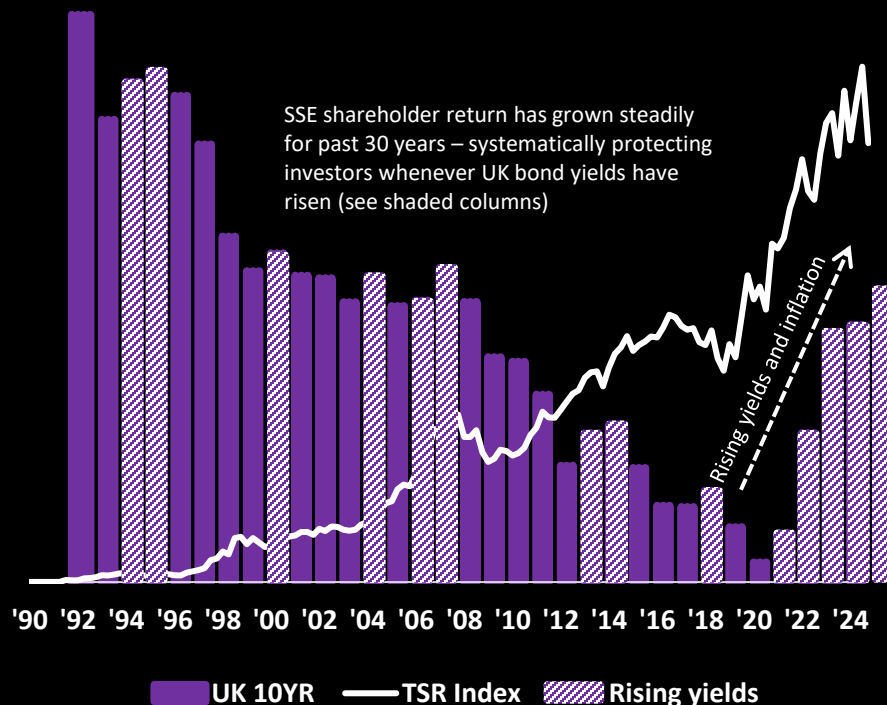


## 11. ... with inflation protection and very low risk

### Unrivalled downside protection

- **No inflation risk:** tariffs are inflation-protected
- **No competition:** Electricity Networks are natural monopolies
- **No volume risk:** Electricity Networks are regulated and can claw back revenues that are lost
- Unlike bonds, returns are **NOT driven by interest rates** (see graph).
- They are also **NOT driven by commodity prices**

SSE: Total Shareholder Return vs. UK 10 Yr Government bond yields



- Substantial upside combined with unrivalled downside and inflation protection
- A “Super-Alternative” investment to own in times of stagflation



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## C. SSE Valuation & Strategy

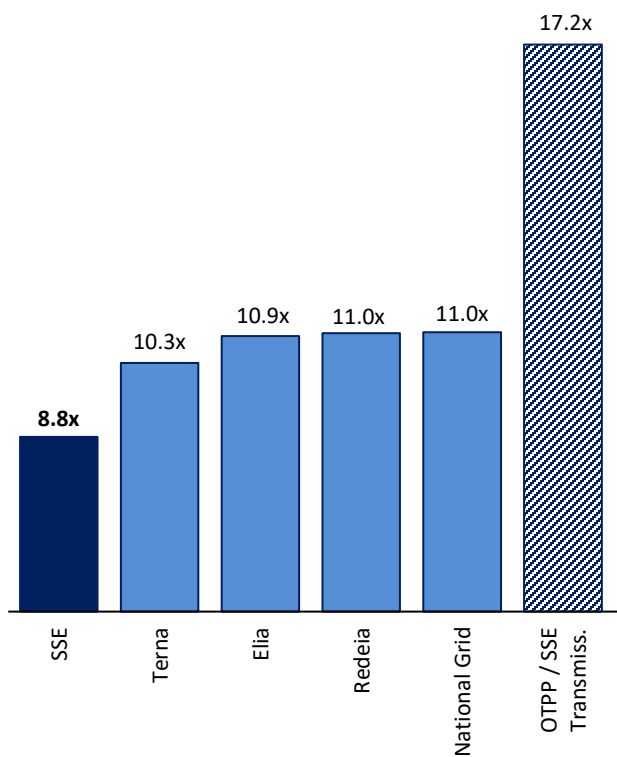




## 12. Notwithstanding its attractions, SSE trades at a discount to all relevant peers

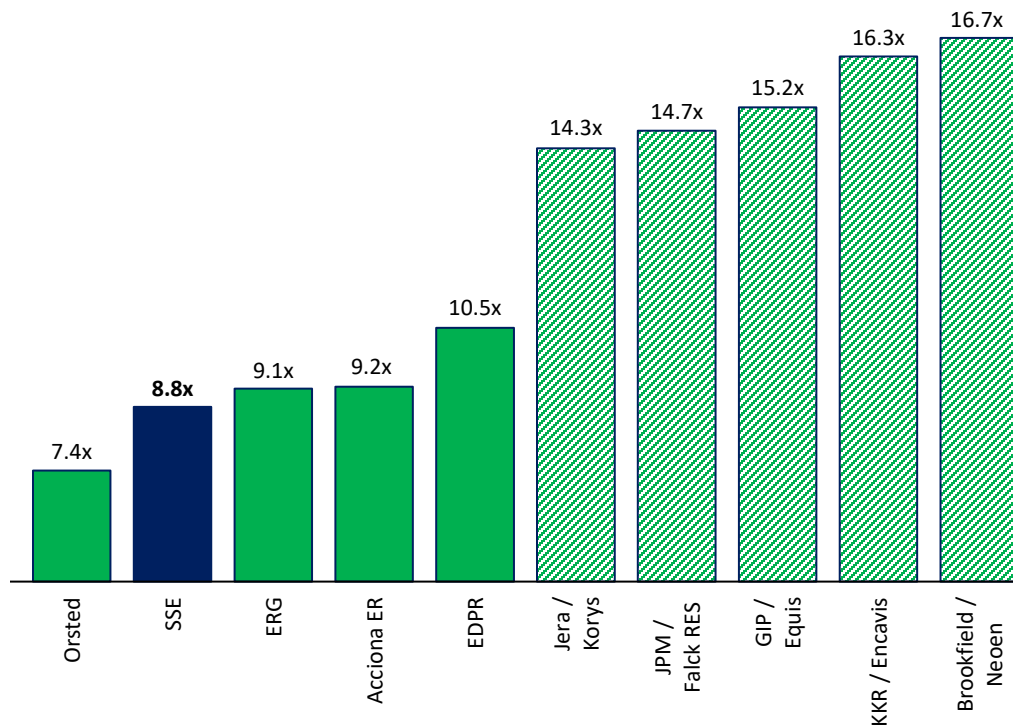
### Power Network Specialists

*EV/EBITDA FY+2*

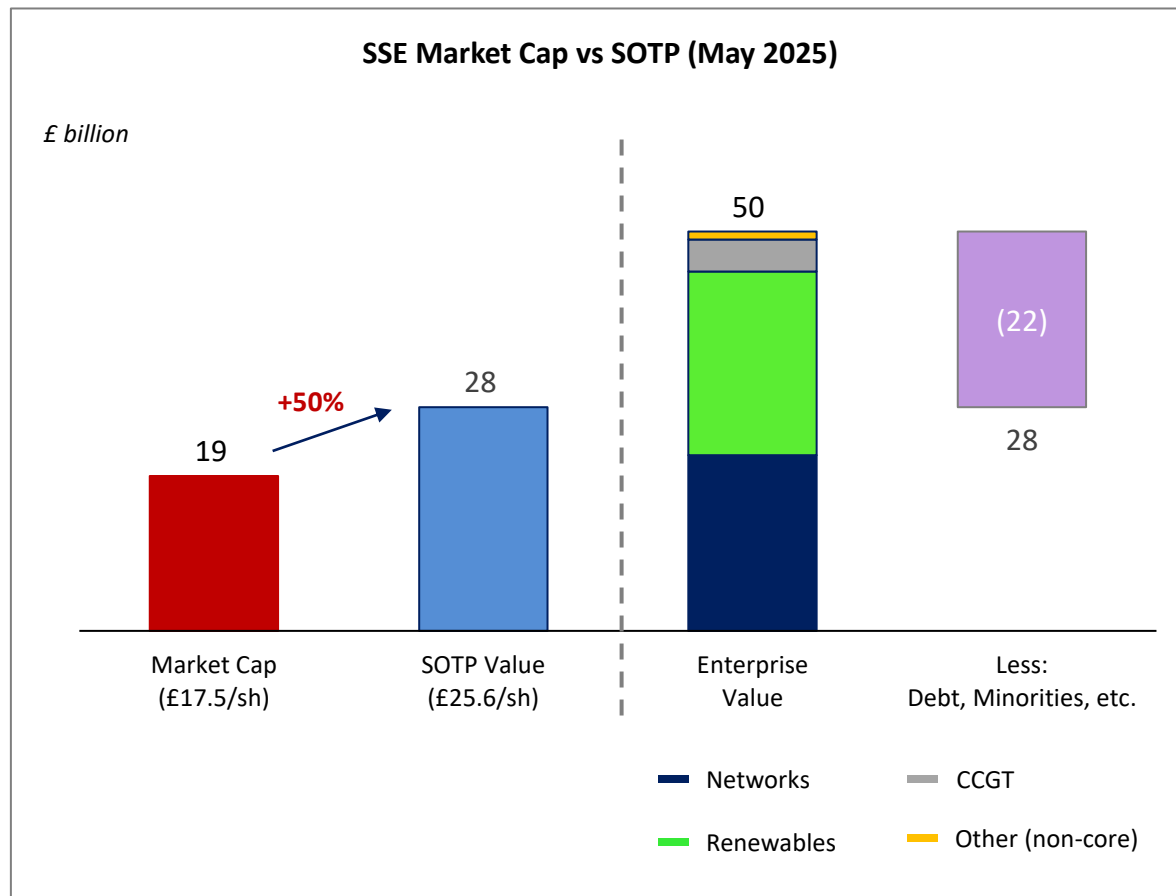


### European RES Specialists

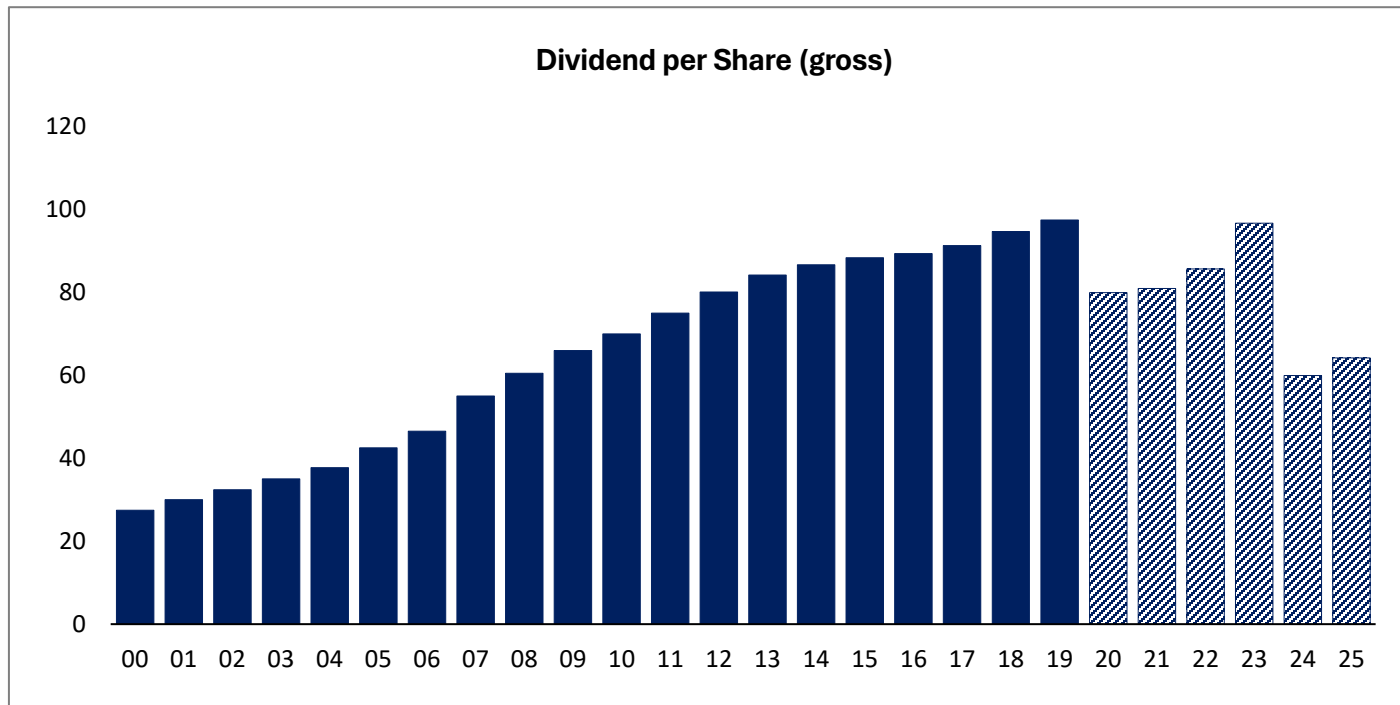
*EV/EBITDA FY+2*



### 13. It also trades at a significant discount to its Sum of the Parts valuation



## 14. What explanations might there be? Dividend stability was sacrificed in 2020

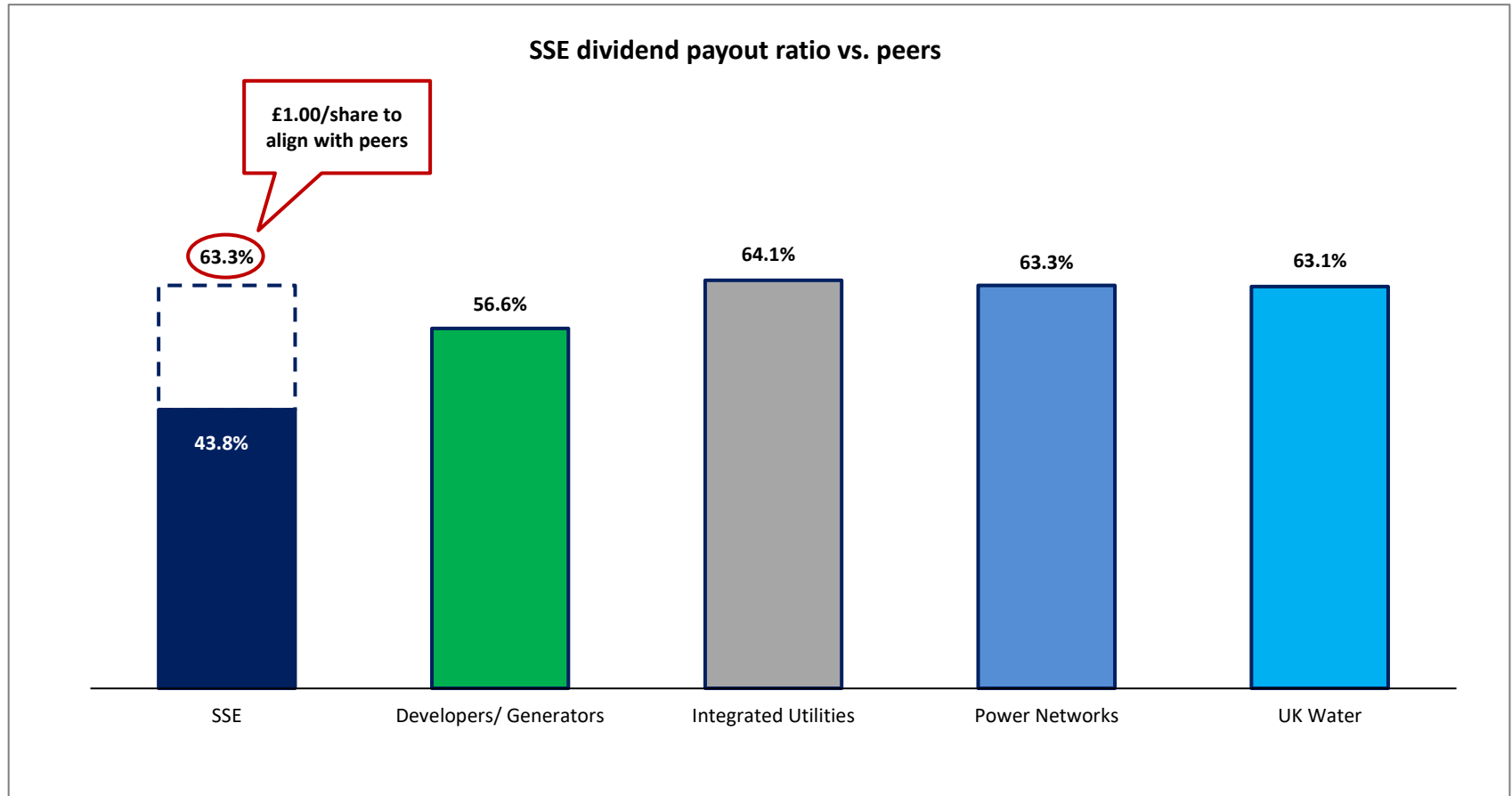


**SSE's dividend increased for more than 20 consecutive years from 1998**

- Shareholder base reflects this preference: 240,000 retail shareholders
- Dividend was first rebased to **80p in 2020** and then to **60p in 2024**



## 15. SSE's dividend payout ratio is now considerably below market

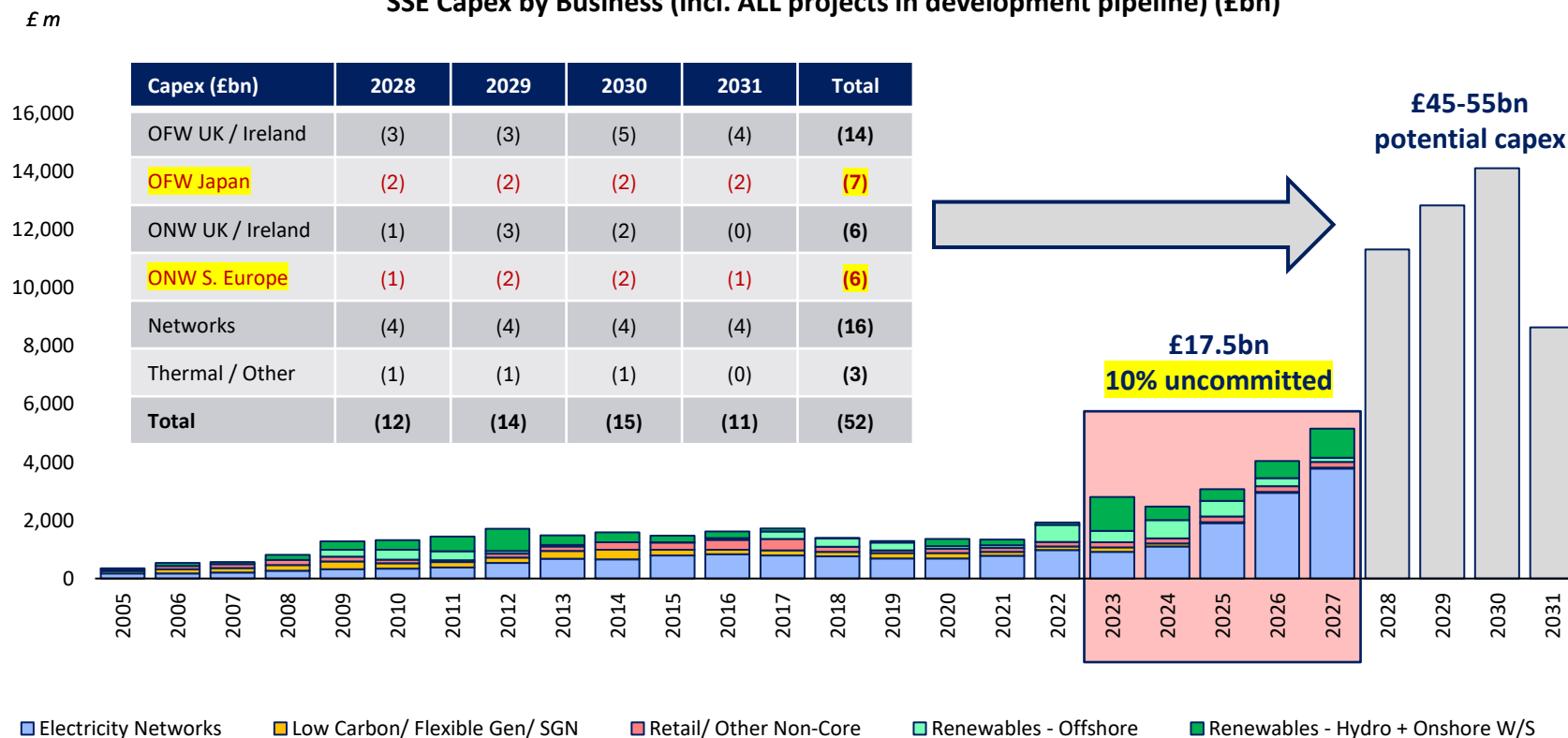


Note: UK Water adjusted to FY+3 payout ratio to normalise currently very high levels.  
Source: Company information, Bloomberg as of 05/06/2025



## 16. International diversification deprives SSE of economies of scale/ synergies

**SSE Capex by Business (incl. ALL projects in development pipeline) (£bn)**



Net Debt/ EBITDA	2019A	2020A	2021A	2022A	2023A	2024A	2025A	2026E	2027E
Consolidated	5.8x	5.7x	4.7x	4.0x	2.7x	3.0x	3.2x	3.5x	4.0x

Note: Capex as per KV model. Post 2027 might differ from what modelled. Leverage as per company guidance.

Source: Company information, KV financial model, Bloomberg



## 17. Economies of Scale and Synergies in Offshore Wind

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Offshore wind assets are the world's largest and most impressive pieces of capital equipment manufactured in series – imagine **250 Eiffel Towers** all standing side by side



Dogger Bank A (UK North Sea), due to become the world's largest offshore wind farm (3.6 GW) when completed



## 18. Economies of Scale and Synergies in Offshore Wind

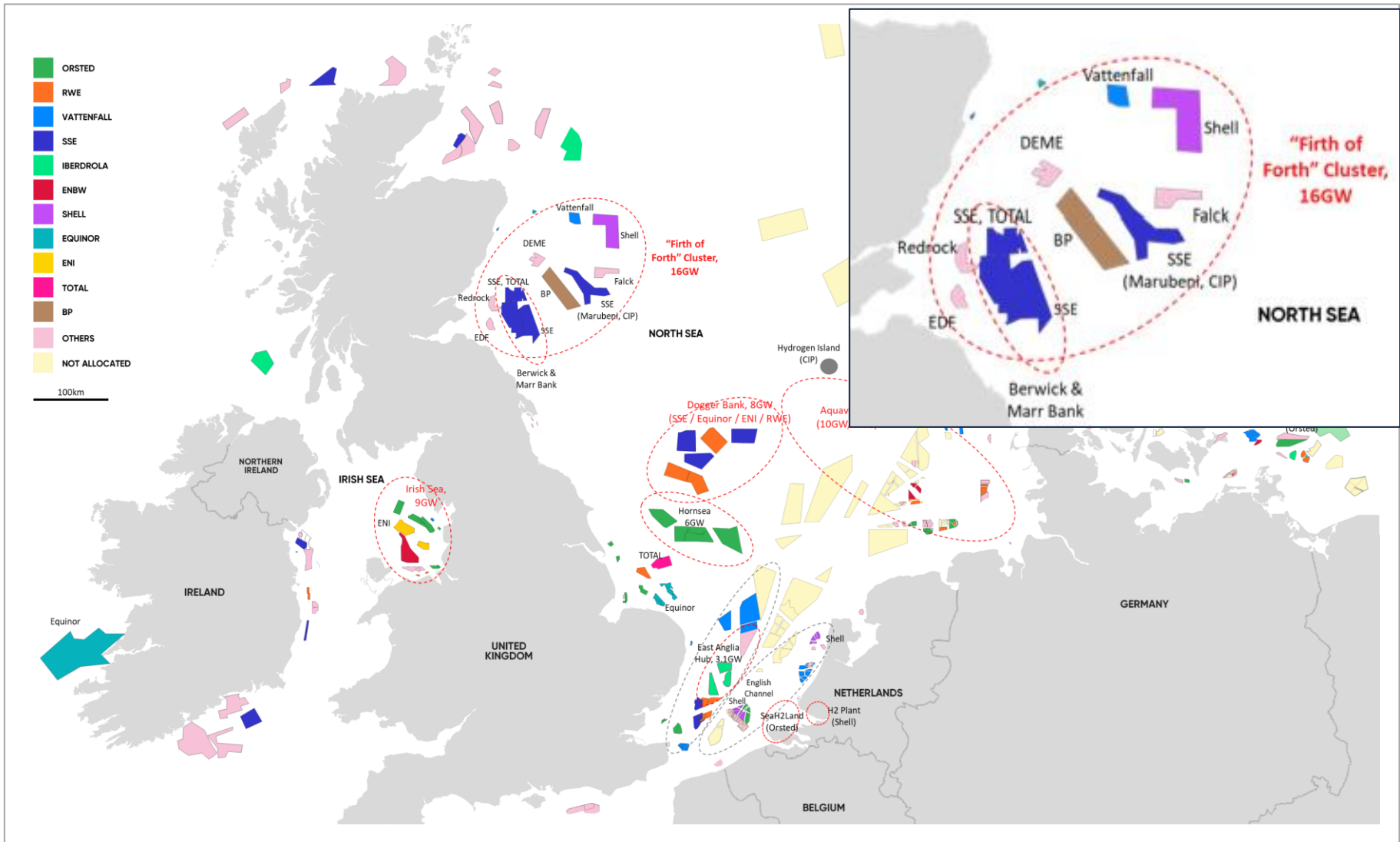
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More than in any other industry, **economies of scale are paramount**. Each project involves the construction of a dedicated harbour, supply chain, logistical infrastructure etc.

- Economies of scale associated with **consolidation in the sector** are likely to include:
  - ✓ Preferential terms with turbine and other component manufacturers
  - ✓ Sharing of specialist vessels for construction, maintenance, security and cable-laying
  - ✓ Sharing the costs of environmental studies and other such projects
  - ✓ Sharing the costs of energy hubs and other fixed infrastructure
- Synergies include the transformation from intermittent to dispatchable electricity by **sharing subsea cables**



## 19. Berwick Bank (SSE crown jewel) could be consolidated with Shell/ BP concessions



Source: WindEurope, EU Commission, BNEF, IEA, 4c Offshore, North Sea Summit, company information, Knight Vinke Research





## 20. Strategic alternatives that SSE's Board and Management might consider

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### A. Restore the Dividend to £ 1.00 per share (from 60p)

- Funded by using £ 1.75 billion of uncommitted capex budget in current plan

### B. Potential Disposals

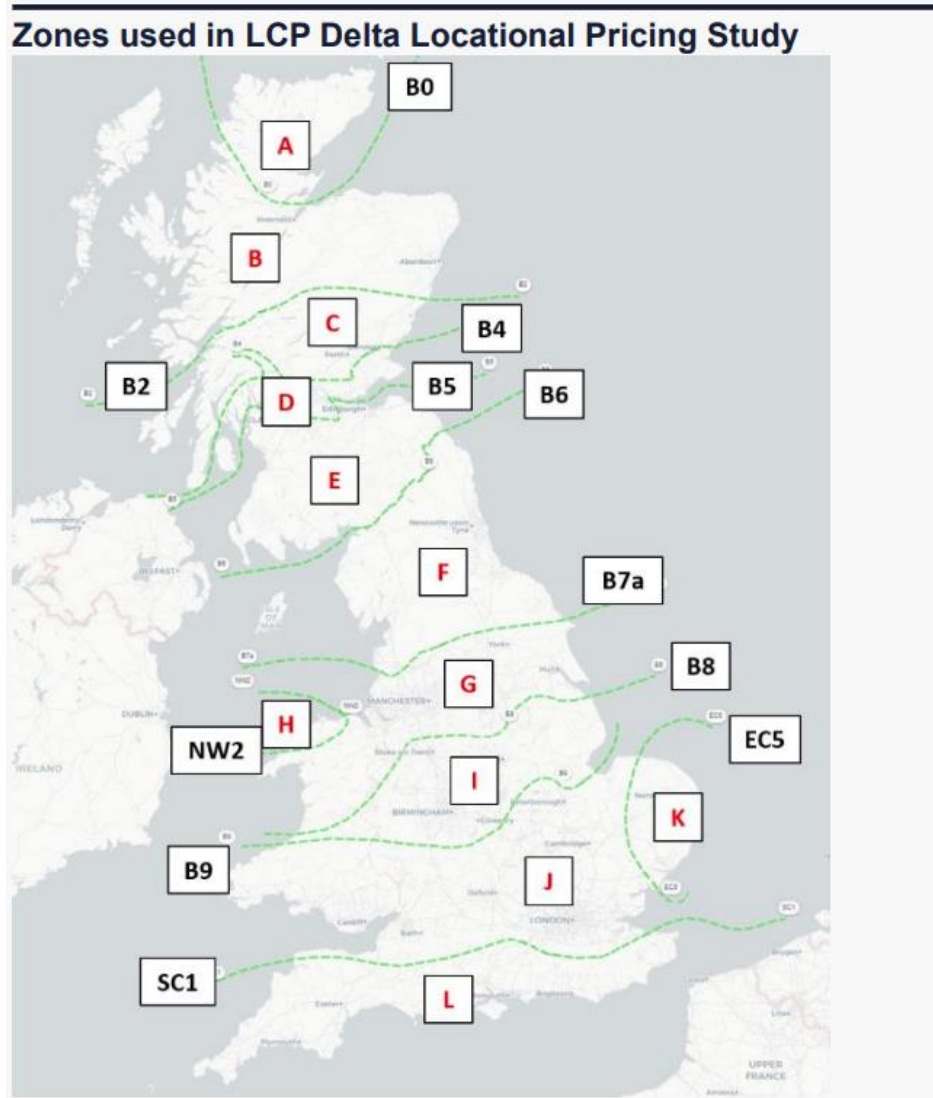
- Part of Transmission (ring-fenced so no synergies with Generation)
- Part of Distribution (ring-fenced so no synergies with Generation)
- Onshore Wind portfolio (most contracts expiring within 5-10 years)
- Solar portfolio in Southern Europe (no synergies with core business in North Sea)
- Beatrice and Greater Gabbard Offshore Wind Farms (contracts expiring within 5-10 years)
- Non-core assets (incl. Neos Telecom)

### C. Refocus on Offshore Wind in the North Sea (£ 15-30 billion of capital potentially redeployed)

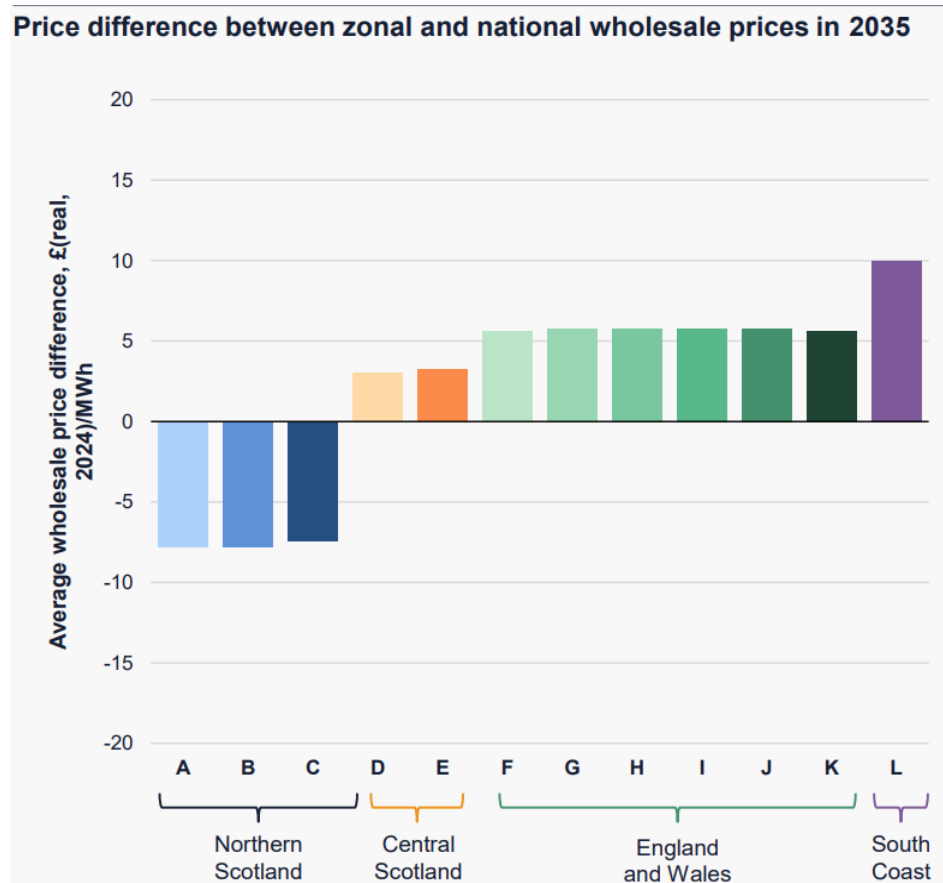
- Exit from Offshore Wind projects in Japan and RES projects in Southern Europe and Poland
- Retention of 100% of Berwick Bank and Arklow Bank 2 (instead of reducing to 40% before development is complete)



## Appendix A: Zonal Pricing (if introduced) is not an issue for SSE



## Zonal Pricing: only three zones negatively affected (North of Scotland)



With the exception of Beatrice and Ossian, SSE's offshore wind assets are all located in zones that are positively impacted by zonal pricing.



## Zonal Pricing: positive or negligible impact on EBITDA (calculated asset by asset)

The huge 1.8GW Atlantic Super Connection between Scotland and Iceland (recently approved) will significantly alleviate (or even reverse) any downward power price pressure within the next five years.

### Change in EBITDA (Status Quo Scenario)

EBITDA (pro-rata incl. JVs) GBPm	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
<b>Networks</b>	-	-	-	-	-	-	-	-	-	-
Hydro Pumped Storage	-	-	-	-	-	-	-	-	-	-
Hydro Reservoir	-	-	-	-	-	-	-	-	-	-
Hydro Run of River	-	-	-21	-13	-4	-9	-9	-10	-10	-140
Onshore Wind + Solar & BESS	-	-	-35	-17	+1	-11	-12	-12	-12	-12
Offshore Wind	-	-	+2	+1	+14	+22	+24	+24	+85	+66
<b>Renewables</b>	-	-	-54	-29	+11	+3	+3	+3	+63	-86
Thermal	-	-	+88	+91	+93	+95	+104	+107	+85	+87
Other businesses	-	-	-	-	-	-	-	-	-	-
<b>Other</b>	-	-	+88	+91	+93	+95	+104	+107	+85	+87
<b>Total</b>	-	-	+34	+62	+104	+98	+107	+110	+148	+1
<b>Total (absolute)</b>	3,383	3,295	3,513	3,302	3,899	4,337	5,032	5,585	7,177	8,516

- Hydro RoR assets are the most negatively impacted by zonal pricing; flexible hydro is unaffected.
- Only the merchant component of generation revenue is affected; contracted portion is not affected.

Note: DESNZ Scenario; assumes constant difference as indicated by LCP Delta for 2035 adjusted for inflation.

Source: LCP Delta 2025, KV Financial Model



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