Infrastructure's quiet revolution: From commodities to contracted cash flows

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August 2025

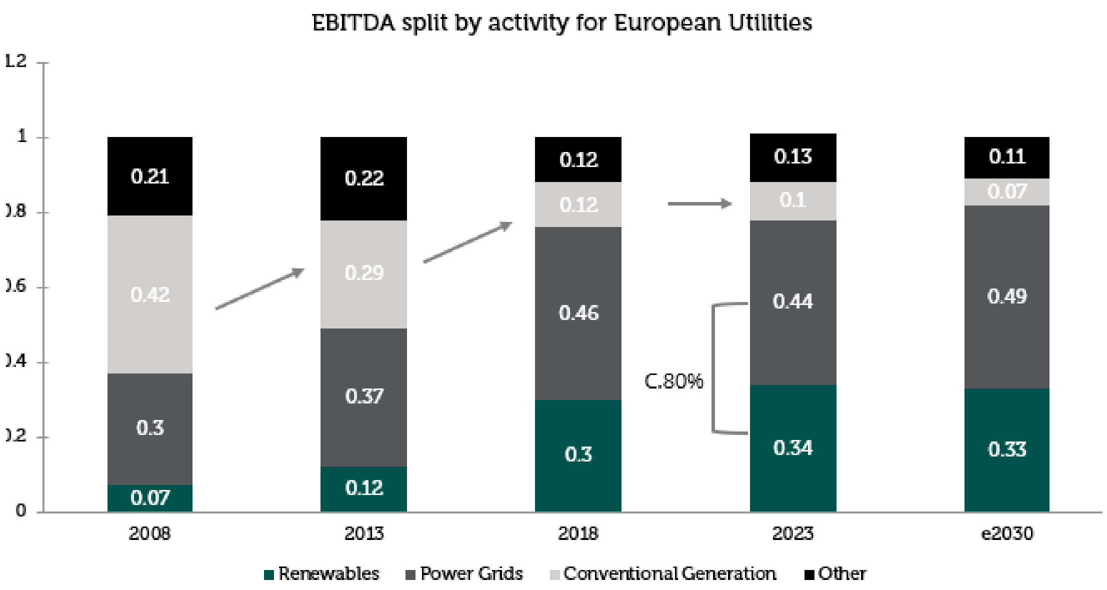
Investments in listed companies that own and operate the infrastructure behind the global energy transition will, we expect, continue to offer investors an attractive blend of income, resilience and growth.

However, there is another growth catalyst that the market has yet to fully appreciate: business models in this sector are being comprehensively 'de-risked'. We believe this structural shift is quietly reshaping the sector and meaningfully enhancing the risk return profile of the asset class.

From commodity volatility to recurring revenue streams

Historically, the earnings of large infrastructure and utility companies were significantly exposed to fluctuating fossil fuel prices. In 2008, as much as 42% of the operating income of Europe's ten largest utility companies came from conventional power generation—making investor returns hostage to swings in commodity markets. As of 2024, that figure stands at just 10%. Today, 80% or more of profits in the sector are regulated or fully contracted, underpinned by frameworks that guarantee predictable returns and typically allow for inflation indexing[1].

Chart 1: EBITDA split by activity for European Utilities



Source: Bloomberg, Goldman Sachs, company data, as at October 2024. Past performance is not a guide to future results. Forecasts and estimates are based upon subjective assumptions.

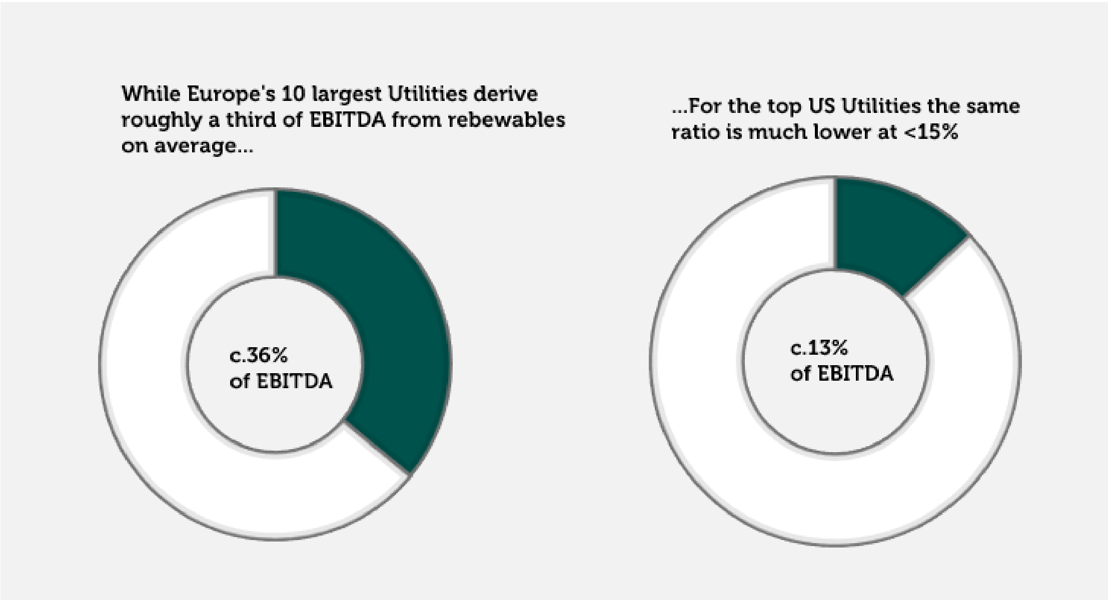
This transition has been driven by two key developments. First is the expansion of regulated asset bases where returns are set by independent regulatory agencies. Across many developed markets, regulators have allowed major utilities to invest heavily in upgrading grids and modernising water and transport systems. These investments are protected by regulatory regimes that guarantee a level of return, frequently with explicit inflation pass-throughs to customer pricing.

[1] Bloomberg, Goldman Sachs, Energy UK, Company data, National Grid as at October 2024.

Second, the growth of renewables has been fuelled by the adoption of long-term Power Purchase Agreements (PPAs), particularly for the large-scale operators. These multi-year contracts, typically lasting 15–20 years, lock in fixed or inflation-adjusted pricing for power generated from wind, solar and other clean sources, further stabilising revenue streams.

Europe is leading this shift, with the UK at the forefront, moving from almost 50% coal-fired generation in 2008 to effectively zero by 2025, replaced largely by renewables under long-term contracts.[2] In relative terms, the US is catching up: currently less than 15% of operating profit for large utilities is based on long-term wind and solar contracts. Renewables and regulatory support are growing but face headwinds from shifting political priorities, a gradual reduction in tax credits, slower acceleration in grid reform and continued gas generation growth.

Chart 2: Renewables as % of EBITDA of top 10 utilities: Europe vs US



Source: Bloomberg, Goldman Sachs, company data, as at October 2024. The information shown above is for illustrative purposes.

The impact of de-risking: Income visibility and lower volatility

For investors, de-risking translates into a potentially dramatic drop in earnings volatility and a new level of income visibility compared to cyclical industries or those still linked to the commodity cycle.

With the majority of profits in the sector coming from asset-backed, long-duration contracts, future cash flows are now highly predictable. This further bolsters the defensive characteristics of listed infrastructure - income security, high barriers to entry, and persistent demand that stems from providing essential services - while avoiding the unpredictable swings of more cyclical sectors.

Revenues that can be forecast years into the future translate into steadier dividends and lower correlation with broader equity markets. For example, the Ecofin Global Utilities and Infrastructure Trust (EGL) targets a dividend yield of around 4% with 5–7% annual dividend growth, supporting the strategy's double-digit total returns target over the medium term.[3]

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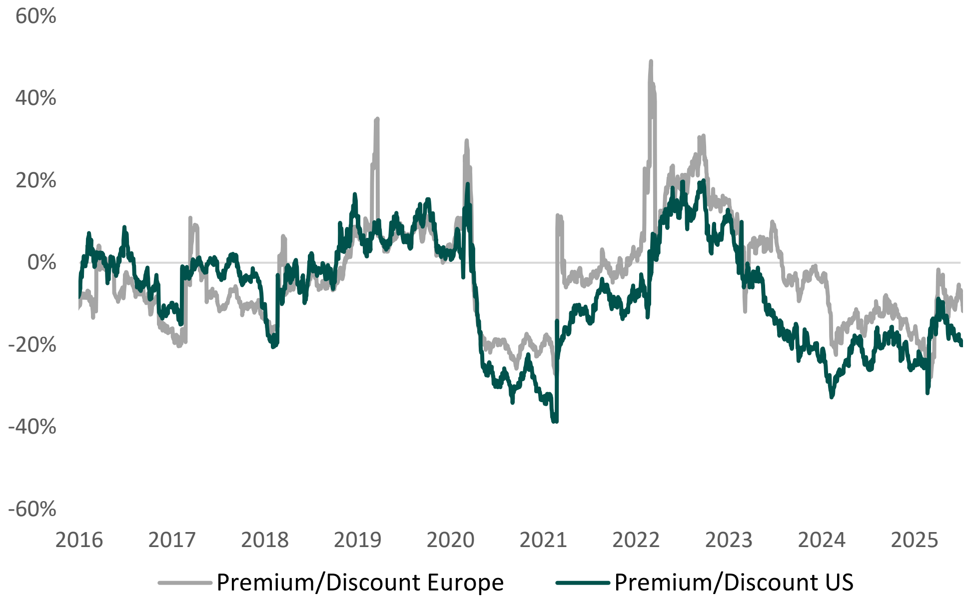
[2] https://www.energy-uk.org.uk/publications/closing-the-coal-chapter-how-the-uk-is-leading-the-energy-transition/
[3] Forecasts and estimates are based upon subjective assumptions about circumstances and events that may not yet have taken place and may never do so.

Private capital flows and valuation disconnect

What's more, despite the clear improvements in their risk profile, listed infrastructure stocks are trading at historic discounts compared both to their own long-term averages (see Chart 3) and private market valuations (see Chart 4).

Chart 3: US and pan-EU Utilities – relative P/E



Source: Bloomberg as at 30 June 2025. Above 0% denotes a premium; below, a discount. Past performance is not a guide to the future. The information shown above is for illustrative purposes.

Since the onset of higher interest rates and inflation, valuations have declined, while the major private equity infrastructure funds have raised over $100bn in the past year alone[4]. Private takeovers of listed infrastructure assets have been completed at premiums of 40–60% above listed market prices, with recent deals such as CDPQ's acquisition of Innergex coming at an 80% premium to the prior 30-day average.

[4] Bloomberg, Company data and Redwheel as at July 2025.

Chart 4: The valuation gap – listed vs private infrastructure

Date	Company	M&A transaction details
2021/2022	Sydney Airport, Spark Infra, AusNet	Australian listed infrastructure takeovers by IFM/ GIP, KKR and Brookfield at premiums to close of 40%, 28% and 34%
June 2023	OPD Energy	Antin takeover (46% premium to last close)
December 2023	GreenVolt	KKR takeover (31% premium to 6M average price)
March 2024	Encavis	KKR takeover (54% premium to last close)
May 2024	Neoen	Brookfield takeover (40% premium to 3M average price)
February 2025	Innergex	CDPQ acquires Innergex for $10bn, 58% premium to last close; 80% premium to 30-day average price

Source: Bloomberg, company data and Redwheel as at March 2025. The information shown above is for illustrative purposes.

The implication for public market investors is clear: there remains a significant valuation disconnect that presents a timely entry point.

Powerful secular drivers and structural growth

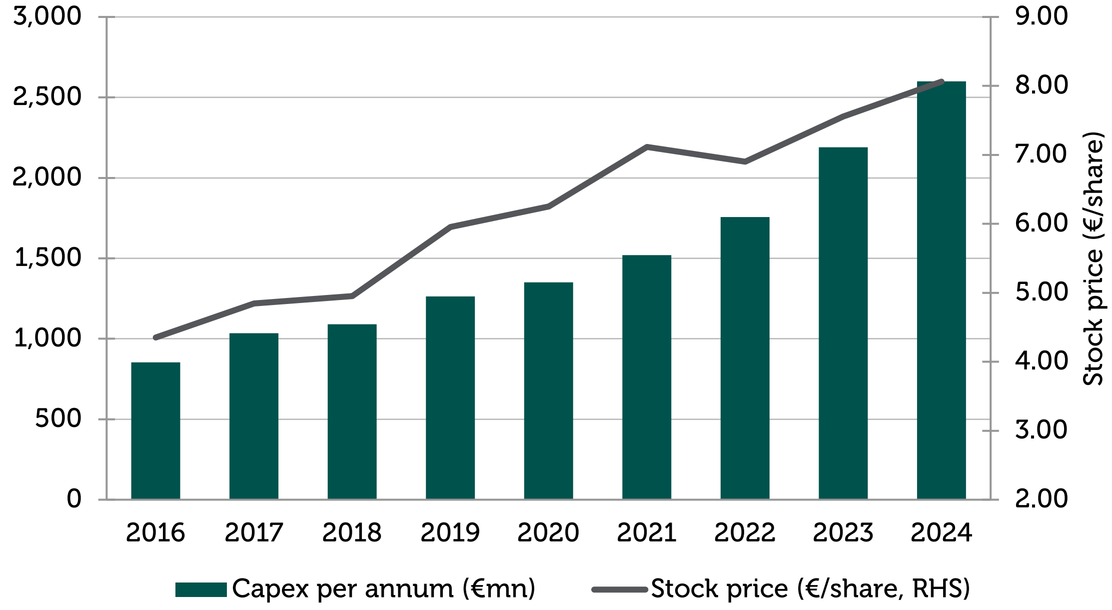
It's helpful to understand the de-risking dynamic within the broader context of structural growth. The world is experiencing a step-change in electricity demand, with US power demand expected to rise by 38% by 2040[5], driven by the electrification of transport and industry, the proliferation of AI and data centres, and the shift towards a low-carbon economy. The energy transition—underpinned by national policies and global commitments to net zero—is driving unprecedented investment into grids, renewables, and efficiency upgrades.

Moreover, the structural underfunding of infrastructure globally is becoming increasingly recognised. Most of the transport, energy, and water networks across OECD countries were built in the post-war decades and now require urgent refurbishment or replacement. It's estimated that $4tn in capex is required to close the funding gap[6], presenting a significant opportunity for investors. Importantly, for regulated assets like Italy's grid operator TERNA, increased capital investment has correlated positively with long-term share price growth, further reinforcing the value proposition for shareholders.

[5] NextEra Energy, 2024

[6] Ferrovial Capital Markets Day 2024, Infrastructure needs in North America, Global Infrastructure Outlook.

Chart 5: TERNA – capex and stock price



Source: Bloomberg, 2024. Past performance is not a guide to the future.

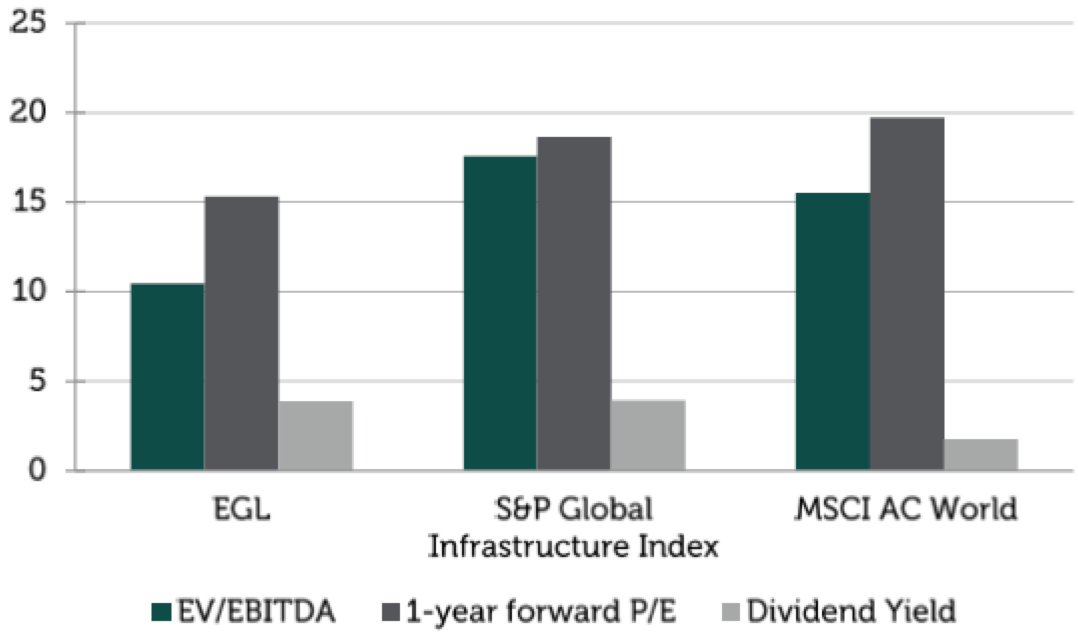
These structural tailwinds ensure that the asset class will remain central to economic development for decades. They also underline our central thesis that companies that operate regulated, essential and energy transition assets on long-term contracts are likely to prevail in this new era of growth.

Why listed and why active?

Listed infrastructure offers immediate access to global leaders with essential assets, diversified revenue sources, and exposure not just to regulated utilities, but also transport, environmental services and digital infrastructure. Unlike private funds, listed vehicles provide daily liquidity, transparent pricing and the flexibility to adapt as regulation, economics, or geopolitics shift. Importantly, not all listed infrastructure businesses are equal: the pace and success of business model transition is uneven, making skilled stock selection a crucial part of the investment process.

The Ecofin team at Redwheel takes a focused, high-conviction approach underpinned by deep sector expertise: selecting companies furthest along in transitioning their business models, best positioned to benefit from electrification and decarbonisation, and most able to pass through inflation or regulatory change. Active management continuously monitors relative value, exploits market mispricing, and adapts exposures as fresh secular trends or regional opportunities emerge.

Chart 6: EGL portfolio: Attractive valuation and portfolio yield



Source: Bloomberg as at 30 June 2025. Past performance is not a guide to the future. EGL refers to Global Ecofin Utilities and Infrastructure Trust. Please see the disclaimer at the end of the document for information about the representative portfolio. Forecasts and estimates are based upon subjective assumptions.

From risk to resilience: A structural opportunity

The de-risking of listed infrastructure business models is a structural shift that meaningfully enhances the investment appeal of listed infrastructure.

Against a backdrop of powerful, secular tailwinds, the transition towards regulated and contracted earnings means that asset class now offers a compelling combination of stability, resilience and attractive total return potential.

At the same time, a historic valuation gap and extraordinary private capital inflows set the stage for a re-rating. In this environment, an actively managed, concentrated portfolio that targets the leaders in electrification and decarbonisation can offer rare access to sustainable, visible income as well as exposure to growth drivers from a generation-defining economic shift.

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