NOVEMBER - DECEMBER 2023 - N.18

# THE MESSAGE

## DECOUPLING

*Renewable Markets*

Massimiliano Comità, Portfolio Manager

Sustainable finance according to AiSM LUXEMBOURG

At the end of July, the renewable energy sector once again entered into a downward spiral: in just about two months the S&P Clean Energy Index lost 30% of its value, bringing the YTD loss to -33%, comparable to the significant downturn of 2021, when the same index lost 34%. However, if back then valuations were excessively high, they now seem exactly the opposite.

Investors sentiment started to crack with Fitch's downgrade of U.S. debt in early August, justified by the high government spending, whose infrastructure plan includes the well-known $469 billion Inflation Reduction Act (IRA) and credits for the green transformation.

Alpha Investor Services Management

Luxembourg

CONTACTS
info@aism.lu
+352 27 85 47 1
21 Rue Aldringen
L-1118 Luxembourg

The negative sentiment intensified in early September when offshore wind projects on the east coast were called into question after a battle between construction companies and the New York administration: the former sought greater incentives to support projects burdened by rising costs due to inflation, wages, sudden interest rate increases, and supply chain delays, while the latter insisted on compliance with the signed contracts. As a result, not only were projects suspended in the U.S., but the following auction in the UK for projects to develop 4GW based on the same technology went deserted – a "disaster" for Ed Miliband, the leading candidate from the English opposition for the role of Minister of Energy Security.

Investors' panic was such that they sold not only shares of offshore wind companies but, throwing the baby out with the bathwater, also of solar and hydrogen-related companies. However, this effect is often due to the buying and selling of ETFs, such as those on the S&P Clean Energy, which include companies involved in various technologies. The selling extended to the point of creating market inefficiencies, which often happen when panic spreads. For example, the Danish company Orsted, a global leader among offshore wind developers, was most affected by the selling (also because other actors are oil companies like Equinor or BP, whose valuations are supported by oil prices). Its stock price fell from over 600 DKK to just above 300, a value that should be compared to the 400 DKK at which analysts price the company's installed power alone; that's not about future or under construction projects but completed projects.

Turning to solar, inefficiencies seem even greater: companies related to this technology are seeing costs decrease considerably, with polysilicon dropping from 30 cents per watt at the beginning of the year to the current 10. This reduction more than compensates for the cost increases due to inflation, labor, etc. Nevertheless, the market price of these companies have fallen between 20% and 40% this year, prompting some of them to initiate buyback plans.

As for hydrogen, it has also received support from the U.S. Department of Energy, which has allocated seven billion dollars for the construction of seven hubs deploying this technology throughout the country; despite this, companies have lost an average of over 40% since the beginning of the year.

Certainly, high interest rates and increasingly tight credit conditions weigh on rapidly growing companies in these sectors. Still, there is a sense that many investors have doubted the entire energy transformation, even though Europe and China continue with their programs and substantial resources. Moreover, despite the encountered problems, New York and Britain also have specific goals: the former must generate 70% of energy from renewable sources by 2030, develop 9GW from offshore wind by 2035, and achieve zero emissions by 2040; the latter has set a goal to install 50GW of wind power by 2030, with only 14GW as of now. Considering that it takes four to six years for the auction preparation and wind park construction, it is clear that there is not much time left, and new auctions in line with market conditions are expected soon.