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Survey: Investors Optimistic About Alternative Energy Industry

Investors are expecting big things from the alternative energy industry this year, according to a new survey. Fully half of investors and analysts participating in the survey expect alternative energy stocks to outperform the broader markets, according to the Waggener Edstrom Worldwide report.

Those polled say the new administration of U.S. President Barack Obama and an expected increase in oil prices will drive strong performance for alternative energy.

Eighty-two percent say Obama's election is "positive" or "very positive" for the industry, while 76% say that oil prices—which have plummeted amidst the current economic crisis—will either stabilize or rebound this year, buoying interest in alternative energy sources once again.

"Despite a deeply challenging business climate, the financial community continues to view alternative energy stocks with measured optimism," Lev Janashvili, vice president of Waggener Edstrom's global corporate communications practice, said. That optimism was apparently not substantially dimmed by the big losses suffered by many alternative energy investors last year, with several prominent indices covering the space falling by 70% or more.

Investors and industry players are most optimistic about energy storage and wind energy. Forty-three percent of respondents expect an above-average year for energy storage, while just 21% expect a below-average year. Likewise, 43% expect an above-average year for wind energy against 24% betting on a below-average year.

There is a good deal less hope for several other alternative energy sectors: Respondents were decidedly negative about biofuels, with 62% saying they expect a below-average year from the sector, while just 17% expect an above-average year. There is also negative sentiment about hydrogen and fuel cells, with 53% of respondents expecting a below-average year against 24% expecting an above-average performance. Wind energy gets somewhat more support, with 37% betting on a good year and 42% expecting below-average performance.

On the whole, the survey demonstrates a belief that the environment for alternative energy stocks will be a positive in their performance. In addition to optimism about the Obama administration, 85% said that U.S. government incentives will have a positive effect on the sector, with 68% saying the same about government incentives in Europe and 49% about incentives in Asia. One-third said that cap-and-trade policies in the U.S. will help alternative energy this year, while just 10% expect them to have a negative impact.

Which is not to say there are no potential minefields for alternative energy in 2009: Seventy-seven percent of respondents told Waggener Edstrom that access to capital will be a big problem this year. Another 43% say oil and gas prices will have a negative effect on the sector.

Still, almost all respondents expect gas prices to rise over the next three years, an important factor, as 53% also say that public interest and commercial investment in alternative energy declines alongside gas prices.

The report also took a close look at how the media covers the alternative investment industry. Alternative energy players have a decidedly negative view of how we in the press do our jobs, with 76% saying journalists and other media often overlook or are underinformed about important aspects of the industry.

Just 57% said the same is true of media coverage of the traditional energy industries.

According to respondents, the mainstream media has a tendency toward a certain amount of irrational exuberance about alternative energy, while the more hard-nosed financial press is predisposed toward a negative view of the tree-huggers.

"Our coverage analysis provides support for respondents' perceptions of mainstream media's coverage of alternative energy, which featured prominently in the two presidential campaigns and in the communications of the new Obama administration," Waggener Edstrom's Daniel Gallagher said. "The industry enjoyed a predominantly hopeful narrative in the media, focused more on the promise of alternative energy, and less on the near-term challenges that account for the industry's performance in 2008"

Of course, the industry players participating in the survey could be accused of irrational optimism themselves. Fifty percent expect an above-average year in terms of performance for alternative energy, but not one of the five subsectors garnered as much support as the overall industry.

"The survey reveals a tension between the financial community's optimism about the long-term potential of alternative energy and the difficulty of identifying future leaders and survivors," Janashvili said. "It is interesting, for example, that performance expectations for the broad category of alternative energy stocks are measurably higher than for any of the specific subcategories such as wind or solar."

This week's report is the first in a series on "Investors in Innovation" planned by Waggener Edstrom. The company surveyed 81 current or prospective institutional investors in alternative energy, including brokerage analysts covering the sector and other industry participants, such as private equity firms, direct investors and independent research firms. Most of the respondents are based in the U.S., with 29% based in Europe and 19% based elsewhere.

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