

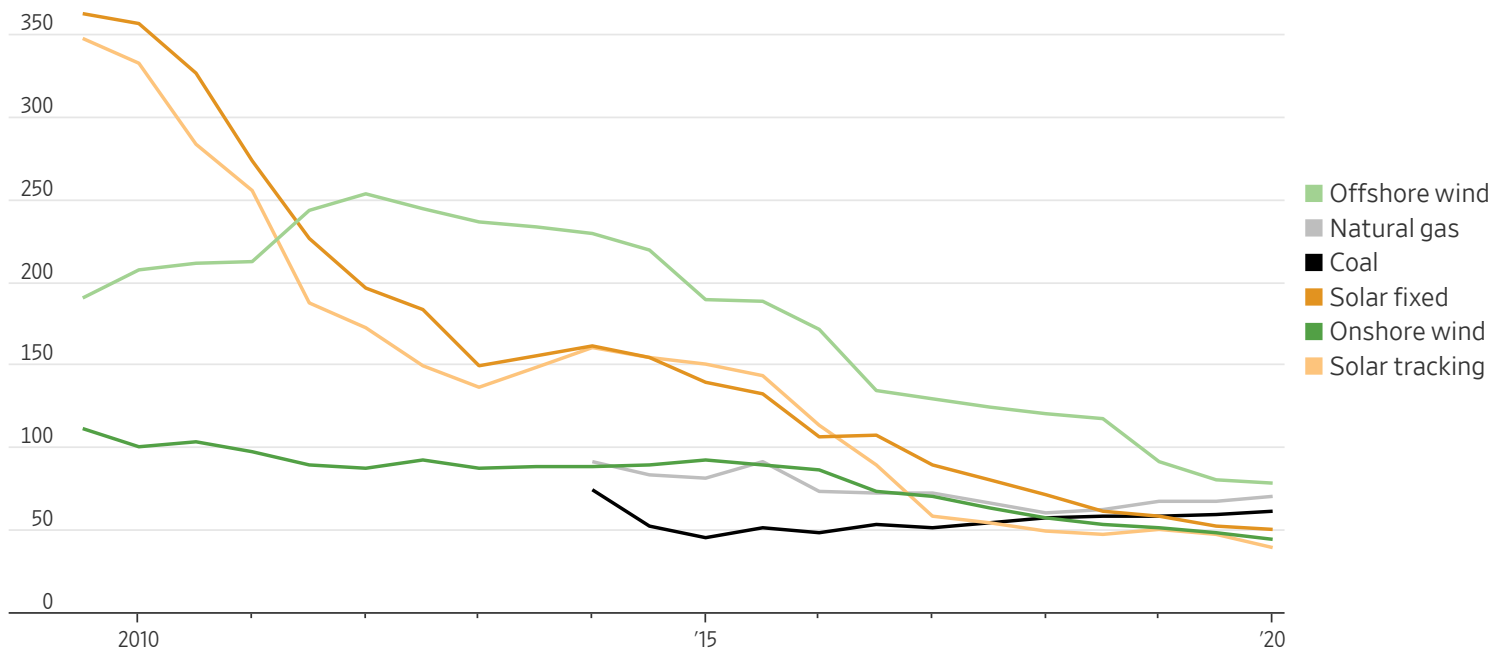
HEARD ON THE STREET

Green Energy Is Finally Going Mainstream

The question for investors now is not whether carbon-free power is here to stay but how to avoid getting burned

Levelized cost of electricity*

\$400 per megawatt hour



*2019 prices

Source: BloombergNEF

By [Rochelle Toplensky](#)

June 24, 2020 6:05 am ET

After many false dawns, the sun is finally starting to shine on green-energy bets.

Public support for the environmental movement has soared over the past year, as has political backing in many countries. Crucially, the cost of renewable energy can now be competitive with fossil fuels. Government, corporate and consumer interests finally seem to be aligning.

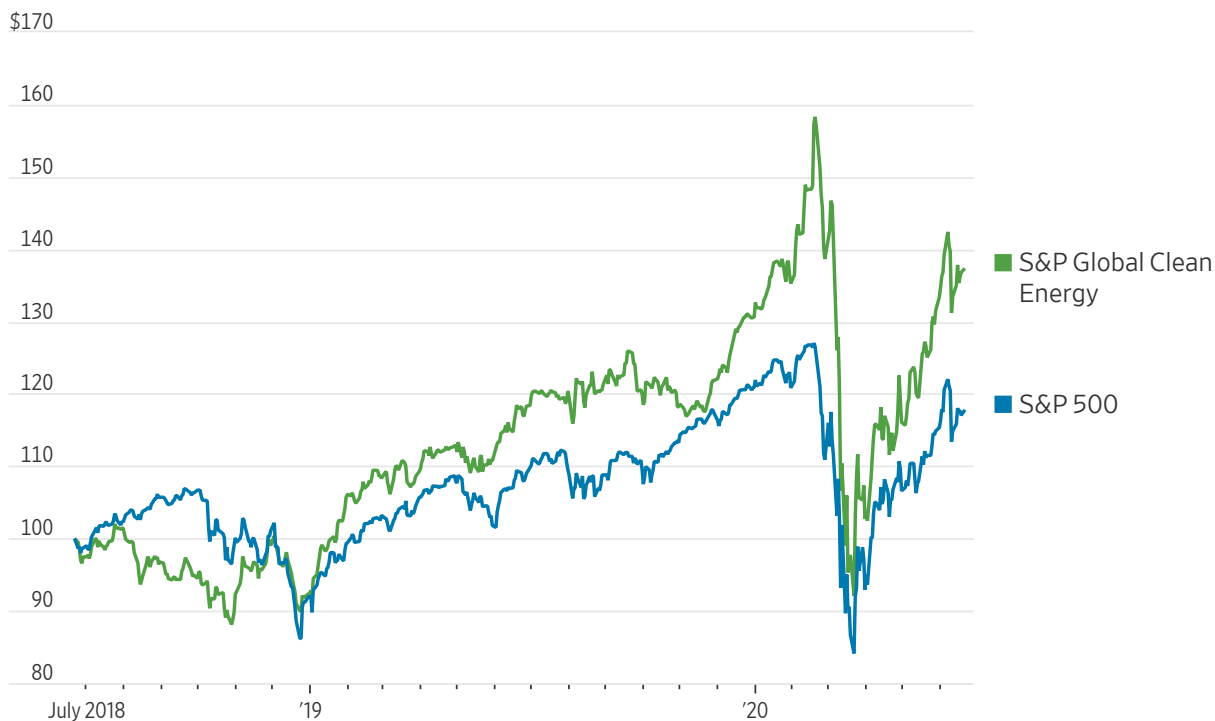
The stock market has noticed. After years of underperformance, indexes that track clean-energy stocks bottomed out in late 2018. The S&P Global Clean Energy index, which covers 30 big utilities and green-technology stocks, is now up 37% over two years, including dividends, compared with 18% for the S&P 500.

This year's Covid crisis will delay some renewable projects, but could speed up the energy transition in other ways. Alternative-energy spending has held up much better than spending on oil and gas. Globally, clean-energy investment is now expected to account for half of total investment in the entire energy sector this year, according to UBS.

Moreover, the crisis has pushed governments to spend money, including on renewable technologies. The [massive stimulus plan](#) announced by the European Union last month is decidedly green. The [German government increased](#) electric-car subsidies as part of its pandemic-related stimulus package rather than rolling out a 2009-style “cash-for-clunkers” program. China's plans include clean-energy incentives, too.

Green Shoots

Value of \$100 invested



Source: FactSet

The big question for investors is no longer whether alternative energy is going mainstream, but how best to play it.

Solar and wind are now mature technologies that provide predictable long-term returns. Big lithium-ion batteries, such as those that power Teslas, are industrializing rapidly. More speculatively, hydrogen is a promising green fuel for hard-to-decarbonize sectors such as long-haul transport, aviation, steel and cement.

Many big companies—the likes of [Royal Dutch Shell](#), [Air Liquide](#) and [Toyota](#)—have green initiatives worth many hundreds of millions of dollars. They are, however, a relatively small part of these large businesses, some of whose other assets may be rendered obsolete by the energy transition.

At the other end of the spectrum are lots of unproven clean-tech companies. Timing is crucial as they can be hyped to eye-watering valuations on little more than excitement and forecasts of exponential growth. Early-stage electric-truck maker [Nikola jumped on its market debut](#) this month to a valuation at one point exceeding that of Ford.

Investors might be better off looking at the established specialists in between. Vestas is the world's leading manufacturer of wind turbines. Orsted, another Danish company, has made the transition from oil-and-gas producer to wind-energy supplier and aspires to be the first green-energy supermajor. More speculatively, Canadian company Ballard has three decades of experience making hydrogen fuel cells.

FIRST IN A SERIES

The energy industry will look very different in the future as renewable power sources replace carbon fuels. The transition has built up unstoppable momentum, confronting investors with opportunities and challenges alike in sectors as wide-ranging as oil and gas, utilities and industrial technology.

The poor long-term track record of clean-energy stock indexes and funds has much to do with the period roughly a decade ago when Chinese solar-panel manufacturers scaled up and drove down costs. That accelerated panel installations but crushed margins, leaving many much-hyped U.S. and European manufacturers, and their shareholders, in the red. That experience remains an important lesson: The successful rollout of a green technology doesn't guarantee shareholder returns.

Yet companies that have emerged from the protracted shakeout with strong market positions and business models should benefit as economies clean themselves up. The green revolution is finally happening. Investors just need to be thoughtful about how they join in.

Write to Rochelle Toplensky at rochelle.toplensky@wsj.com