Six investment opportunities for a greener future

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Vancouver-based Ballard Power Systems produced the hydrogen fuel cells that run this Van Hool bus. Ballard expects the market opportunity in heavy-duty vehicles will be more than US$130-billion by the end of the decade. Handout Ballard Power Systems

Clean-energy stocks are getting a tailwind as politicians and governments pledge to cut carbon emissions and mitigate the negative impact of climate change.

Some names have already rallied in anticipation that U.S. Democratic presidential candidate Joe Biden, now the frontrunner, will win the Nov. 3 election. His US$2-trillion climate proposal includes investing in solar and wind energy, ending emissions from power plants by 2035 and offering incentives for electric vehicles.

The European Union, meanwhile, has approved an US$860-billion economic stimulus package with one-third earmarked to fight climate change. And in the recent Speech from the Throne, Prime Minister Justin Trudeau echoed plans for a green recovery and vowed to make Canada a world leader in clean technology.

Given potential investment opportunities in a greener future, we asked three portfolio managers for their top picks among renewable energy plays.

ERICA LAU, CHIEF EXECUTIVE OFFICER AND LEAD PORTFOLIO MANAGER, NORTH GROWTH MANAGEMENT LTD.

Her funds: North Growth Canadian Equity and North Growth U.S. Equity

The pick: Ballard Power Systems Inc. (BLDP-T) and (BLDP-Q)

52-week range: $6.73 to $29.20 a share; US$5.10 to $US21.61 a share

Fuel cell developer Ballard Power will benefit from a growing demand for hydrogen-powered, heavy-duty electric vehicles, Ms. Lau says. For buses, trucks or trains, “lithium batteries don’t have enough energy density to deliver the same range.” The Vancouver-based company estimates that the market opportunity in heavy-duty vehicles will be more than US$130-billion by 2030. Consensus analyst estimates suggest that Ballard’s sales, which are mainly in Europe, China and California, will grow 37 per cent annually over the next five years. Ballard is not yet profitable, but is expected to scale up production and reduce costs so that hydrogen becomes a more economic option, she says. Because its technology is disruptive, its stock is “difficult to value using traditional metrics” and is a better buy on pullbacks.

The pick: First Solar Inc. (FSLR-Q)

52-week range: US$28.47 to US$87.44 a share

First Solar is an attractive investment given that solar power has become more competitive to alternatives such as coal or natural gas, Ms. Lau says. The Tempe, Ariz.-based solar panel maker also has the best environmental profile in the industry because its advanced technology “uses less energy, water and semi-conductor material” than its main rivals, she says. Its largest customers are utilities and corporations in the U.S. market, which make up almost 90 per cent of revenue. First Solar has US$1.2-billion in net cash on its balance sheet and an order backlog that extends to the end of 2021, she adds. Its stock is fairly valued at about 24 times estimated 2021 earnings. U.S.-China trade tensions are a risk because China supplies raw materials used in its solar panels.

ANDREW SIMPSON, DIRECTOR, INVESTMENT MANAGEMENT, AND PORTFOLIO MANAGER, VANCITY INVESTMENT MANAGEMENT LTD.

His funds: IA Clarington Inhance Canadian Equity SRI Class and IA Clarington Inhance Global Equity SRI Class

The pick: Xebec Adsorption Inc. (XBC-X)

52-week range: $1.65 to $5.62 a share

Xebec Adsorption, which makes equipment to produce renewable natural gas and renewable hydrogen, will benefit from a growing move by companies to clean technology, Mr. Simpson says. The Montreal-based firm's customers include utilities, municipalities and waste-management companies. It recently signed a letter of intent to sell a large biogas-to-renewable natural gas system to a large Alberta utility. Xebec has net cash of about $40-million on its balance sheet. It has a $100-million order backlog and gets recurring revenue from servicing its equipment, he says. Xebec has 65 renewable natural gas and 200 hydrogen projects deployed worldwide. The risk stems from executing to maintain order growth, he adds. Its stock trades at about 4.4 times estimated 2021 sales.

The pick: TPI Composites Inc. (TPIC-Q)

52-week range: US$9.19 to US$36.59 a share

Shares of this wind turbine blade maker will get a boost from the ongoing de-carbonization of the power grid, Mr. Simpson says. Scottsdale, Ariz.-based TPI Composites is the leading independent supplier of wind blades to customers, including Denmark-based Vestas Wind Systems A/S and Spain-based Siemens Gamesa Renewable Energy SA. It also makes composite frames and components for zero-emission vehicles. "We expect TPI to grow its business over the next decade at 10 to 20 per cent year-over-year," he says. TPI, which has a strong balance sheet, is expected to increase sales by 18 per cent in 2021 to US$1.7-billion, he adds. A risk is turbine makers deciding to make blades in-house. Its stock trades at 18.5 times 2021 earnings, which is fair for the growth ahead, he adds.

BRUCE CAMPBELL, PRESIDENT AND PORTFOLIO MANAGER, STONECASTLE INVESTMENT MANAGEMENT INC.

His fund: Purpose Canadian Equity Growth

The pick: Greenlane Renewables Inc. (GRN-X)

52-week range: 0.17 to 0.85 cents a share

The provider of biogas upgrading technologies will get a tailwind from various governments – including California – that mandate increased use of renewable natural gas, Mr. Campbell says. Burnaby, B.C.-based Greenlane, which offers three technologies, has an order backlog of about $42-million, he says. Its growth will also come from a joint-venture struck in July with Paris-based Swen Capital Partners SA. Swen will finance building the equipment for customers while Greenlane will get recurring revenue to operate it. A risk is the need for capital as Greenlane is a small company, while its biggest rival is France-based multinational Air Liquide SA. However, Xebec Adsorption, which is also held in the fund, and Greenlane are the pure plays in this space, he says. Greenlane's stock trades at about 1.5 times 2021 sales.

The pick: GreenPower Motor Co. Inc. (GPV-X) and (GP-Q)

52-week range: $1.15 to $30.64 a share; US$8.80 to US$23.45 a share

The maker of electric minivans and buses should benefit from a move to reduce the carbon footprint at places such as airports, Mr. Campbell says. Vancouver-based GreenPower, which has a plant in California, received a high rating for its EV Star shuttle bus from the U.S. Altoona bus-testing program to qualify for subsidies for vehicle purchases, he adds. Its stock, which listed on the Nasdaq in August after a share consolidation, fell sharply after a short-seller suggested the company's sales would be hurt by shrinking subsidies. It's not a concern because GreenPower is in a developing market, while one analyst report estimates that revenue could grow to $123-million in 2023, he adds. The risk stems from management executing on its strategy and competition. Its stock trades at about 10 times 2021 sales.