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BBGI GROUP Global Investments

BBGI CLEAN ENERGY 100 USD INDEX AND STRATEGY

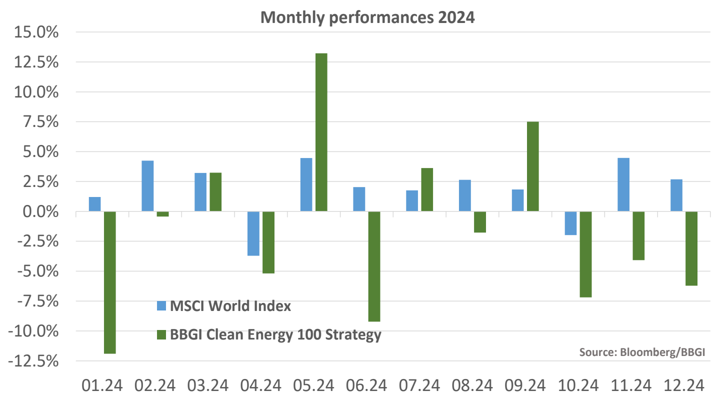
A BBGI Exclusivity since 1999

December 2024

Annualized performance of +8.92% since 1999

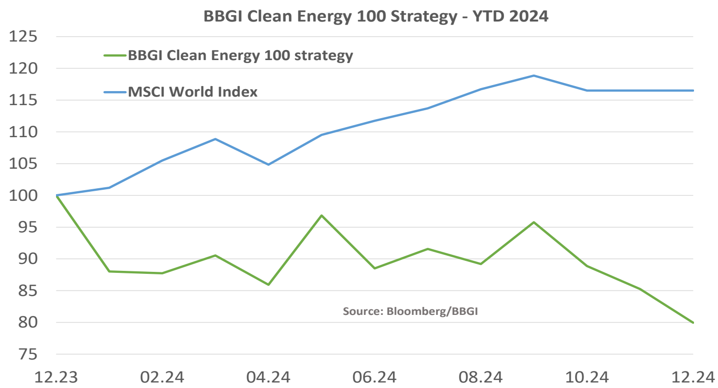
Towards a potential return of RE in 2025?

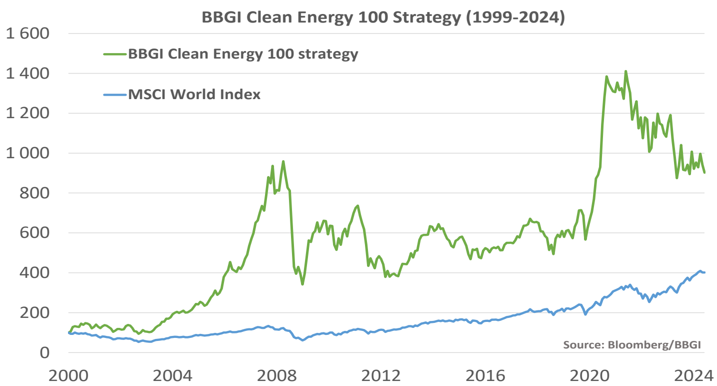
	December	YTD
BBGI Clean Energy 100 strategy:	-6.21%	-19.39%
BBGI Solar Sector:	-7.79%	-40.08%
BBGI Wind Sector:	-8.24%	+10.12%
BBGI Biofuel Sector:	-3.24%	-30.72%
BBGI Energy efficiency Sector:	-5.50%	-11.36%



Investment climate commentary:

Donald Trump's re-election in 2024 could put the brakes on the development of renewable energies in the USA, notably through a slowdown in approvals for offshore wind, a sector still in its infancy with only 200 MW installed, but 27 GW under development. Trump, who has been critical of wind power, could suspend or delay these projects, as he did with the freeze on LNG approvals under Biden. In addition, the uncertainty surrounding the continuation of tax credits, such as the 45Z for biofuels and the 45X for the solar industry, could weigh on the profitability of companies in the sector. However, the lower interest rates expected in the event of an economic slowdown could partially offset these risks by reducing the cost of capital for renewable infrastructure projects, which is crucial for a sector where initial investments are high. Despite these uncertainties, high turbine prices and the 60% drop in steel prices since 2022 could enable some companies to exceed expectations in 2025. Thus, the evolution of fiscal and monetary policies will play a key role in the competitiveness of renewable energies against fossil fuels in the USA. Nevertheless, these potential obstacles to the development of renewable energies could represent an opportunity for other geographical areas, and Europe in particular. Indeed, Europe's competitiveness in renewable energy is undermined by an over-regulated environment that hinders innovation. On January 29, the European Union recently presented a package of proposals known as the “Clean Industrial Deal”. This package of measures is aimed at deregulating various sectors essential to the future competitiveness of the economic zone, and in particular that of renewable energies, and is due to come into force at the end of February.





Comments by sector:

Solar: -7.79%

Solar energy stocks have fallen by around 30% in 2024, according to the median of companies in Bloomberg Intelligence's solar theme basket, while the Bloomberg World index has risen by 20%. Despite this downturn, valuation multiples have risen slightly, but remain well below their 2021 peaks. The median EV/Ebitda multiple for the sector stands at around 10.5x, versus 12.5x for the world index. Global demand for solar energy is estimated to have grown by over 30% in 2024, but this strong expansion has not been enough to support the sector's stock market performance, which continues to lag behind the overall market and the wider energy sector. We believe that this momentum could extend into the 2025-2027 period, which could help improve investor sentiment and raise sales forecasts. In the United States, a complete repeal of the Inflation Reduction Act seems unlikely. However, adjustments to incentives in favor of clean energy could be debated as part of the tax reform expected in 2025. Such a development could help narrow the profitability gap between US solar equipment suppliers and their international competitors, although any concrete changes are unlikely to come before 2026 at the earliest. One of the most decisive levers for US manufacturers remains the 45X manufacturing tax credit, which plays a key role in their competitiveness.

Biofuel: -3.24%

The biofuels sector is experiencing widespread weakness in 2025, with contrasting dynamics: US producers of biomass-based diesel and low-carbon ethanol are better positioned, while the international sector is suffering more. Uncertainty surrounding the 45Z tax credit should lead to short-term volatility, but tighten RIN balances. Valuation adjustments await decisions by the Trump administration. Half-mast margins are weighing on sector shares, with small producers and international players in greater difficulty. Gevo and Calumet stand out thanks to Department of Energy loans that secure their projects. Cellulosic RINs have supported renewable natural gas, but an EPA proposal has driven their prices down by over 35%. REX and Darling Ingredients, beneficiaries of IRA credits, held up better, buoyed by new California regulations and restrictions on seed oils. Ethanol producers saw their margins come under pressure despite solid volumes. The sector's valuation (EV/Ebitda) recovered in the second half, but remains 18% below 2022 and could stagnate pending political decisions. A recovery will depend on support from the Trump administration via new mandates and an extension of tax credits beyond 2027.

Wind: -8.24%

Shares in the wind power sector rose by around 10% in 2024, outperforming the 2% fall in the oil-weighted MSCI World Energy Index, but lagging the 16% rise in the Bloomberg World Index. The sector's valuation remains below that of the overall market due to political uncertainties in the US and moderate earnings forecasts. Election concerns in Europe and the United States dampened the performance of wind shares in 2024. Turbine prices remained high, but public policy support could boost demand. This could support the still timid sales growth for manufacturers in 2025-2026, as part of government efforts to decarbonize. GE Vernova clearly outperformed its peers in 2024, probably thanks to expectations of growing profitability in 2025-2027. The sector's valuation remains under pressure, with a rolling 12-month EV/Ebitda multiple of 9.2x, compared with 12.2x for the Bloomberg World index. Vestas has a particularly low multiple (6.1x), two standard deviations below its five-year average, due to electoral uncertainties and lower earnings expectations. Falling steel prices (-60% since their peak in April 2022) could enable some companies to exceed Ebitda forecasts in 2025, thanks to turbine prices traded at higher levels. Offshore wind power in the USA remains underdeveloped, with less than 200 MW installed. However, including projects underway and awaiting permits, capacity could reach 27 GW, close to the Department of Energy's target of 30 GW by 2030. This could reinforce forecasts by the IEA and manufacturers like Vestas, as supply chains become more structured. The Biden administration has allocated $1 billion via the IRA to modernize permitting processes. Trump's return, however, could put the brakes on these advances, notably by pausing permits, as Biden did with LNG.