BUSINESS INSIDER

www.businessinsider.com December 16, 2020

PREMIUM / HOME / MARKETS

A senior portfolio manager at a $1.3 billion sustainable investment firm shares 3 under-the-radar stocks that are poised to benefit from the race to a zero-carbon world — and breaks down why he's bullish on renewables infrastructure in particular

Vicky Ge Huang

- **Matt Breidert, a senior portfolio manager at $1.3 billion Ecofin, manages the $112.7 million Ecofin Global Renewables Infrastructure Fund (ECOIX), which invests in companies that own low-carbon power generation assets.**
- **Breidert seeks to capitalize on the global decarbonization trend by focusing on three areas of growth in renewable infrastructure: transportation, plastics, and industrial uses of materials such as steel.**
- **He also shares three under-the-radar stocks that are poised to take off as the race to a zero-carbon world gets underway.**

ECOFIN INVESTMENTS, LLC

Matt Breidert is a senior portfolio manager at the $1.3 billion sustainable investment manager Ecofin.

Matt Breidert has gone full circle.

He studied ecology at university to prepare for a profession in the natural sciences, and then spent the majority of his career "slicing and dicing" his knowledge of the energy markets in finance as an investment banker and hedge fund manager.

Today, Breidert serves as a senior portfolio manager at the $1.3 billion London-based sustainable investment firm Ecofin. He is also at the helm of the $112.7 million Ecofin Global Renewables Infrastructure fund, which invests in companies that own low-carbon power generation assets.

The fund, which was launched as a private fund five years ago and converted to an open-end fund in August, has returned 18.51% over the past three months and beaten 93% of its category peers, according to Morningstar data.

Based on its five-year track record, the fund has an annualized return of 13% since inception compared to 3% for its benchmark, according to its factsheet.

But performance is far from the only thing that the portfolio delivers.

While the transition to clean energy has made steady progress for the past few years, the global race to decarbonize is just kicking into high gear. Leading the way is President-elect Joe Biden's pledge to rejoin the Paris Climate Accord, invest $2 trillion in clean energy, and join the European Union in achieving net-zero carbon emissions by 2050.

Investment process

To identify key players riding on the clean energy trend, Breidert and his co-PM Michel Sznajer start with a global universe of about 1,470 listed infrastructure stocks. They then search the database for owners of power generation and grids that meet the liquidity thresholds of a minimum of $200 million market cap and average daily trading volume of $5 million.

In the second stage, they further strip out the filtered 270 stocks based on their carbon emissions footprint and sources of electricity generation to arrive at 160 stocks for deep analysis.

The end portfolio is a concentrated bet on about 20 to 40 stocks that are either **big renewable platform developers** or **regional champions.**

"The renewable platform developers are really attractive. One of the reasons is that at a large scale, developers have really big economies of competitive advantage," he said. "The second is, to win in this business, you have to have the scale in order to sign large contracts with counterparties."

Breidert also keeps early entrants into the renewable infrastructure space on his radar.

"These companies are very good at addressing the early stages of policy framework support or changes to the regulatory environment that opens these markets," he said, "and they can access those early projects and the early regulatory schemes."

3 key areas of growth

Underpinning Breidert's two-staged investment process are three key areas of growth for renewables over the next decade.

The first area is **transportation.** The traditional automotive industry has been transitioning to electrification, but electricity market-share growth within transportation is still very low.

"We think the two ways renewables penetrate transportation are first and foremost electric vehicles, but secondarily, something called green hydrogen," Breidert said, referring to hydrogen that is created with renewables instead of other methods that cause carbon emissions.

"If you use renewables to crack water, you can create green hydrogen, you can then use that hydrogen and fuel cells directly," he said. "Or, potentially, you could use the green hydrogen as a precursor to fuel, to create zero net-carbon hydrocarbons."

Another growth opportunity would be **plastics**, where Breidert believes renewable electricity and renewable assets are likely to play a meaningful role.

"If you look at large companies like Unilever who have made big decarbonization and net-zero commitment, they have to get the carbon emissions out of the plastic," he said. "In order to do that, you're going to have to put feedstocks in that plastic that are not traditional fossil fuels."

The last area would be the **industrial usage of materials like steel**, where decarbonization can be achieved with green hydrogen.

"Steel processing uses things like coking coal, where they're stripping hydrogen; you can inject green hydrogen into those processes and decarbonize," he said. "I think there are opportunities like that across all industrial applications that use lots of heat."

3 under-the-radar stocks

If everyday investors have never heard of these growth opportunities, despite the fact that they each make up trillion-dollar addressable markets, it is because the trends are just getting started.

But some companies have already set themselves up to capture the explosive growth ahead, in Breidert's view.

One of them is **EDP Group** (EDP.PL), a European integrated utility and renewable energy development company that counts North America as one of its primary markets.

"One of the things we really like about this business is that when a company like EDP goes out and originates the project, effectively the project is underwritten by a contract," he said. "So they need to find a counterparty in which to sell the output of renewable electricity to that counterparty. Those contracts range in length from 10 years to 20 years, they're very long term."

He continued: "So that gives you a high amount of visibility of cash flow. The cash flow from the projects is then highly predictable because of the characteristics of renewable resources... So it's a highly predictable and highly visible cash flow, which makes it highly creditworthy."

Another company is **China Longyuan Power** (916.HK), China's largest wind energy developer, operator, and owner.

While the stock has underperformed the Chinese market by 7o percentage points over the last three years due to "a brutal regulatory interference," Breidert said his investment thesis for the stock "does not require the kindness of Chinese regulators to make it right."

"What's happened is that the cost of producing wind electricity in China is now actually cheaper than it is to produce with coal," he explained. "So we don't need any subsidies going forward. We're not worried about that cash flow stream looking forward decaying the returns to the projects that the company is going to build in the future."

Moreover, there is also a newer catalyst for the stock that he believes Chinese investors have not caught on yet.

"We believe multinationals sitting inside China have strong requirements to decarbonize their supply chain," he said. "And we believe these companies are going to scramble, particularly in a highly polluted country like China, for green resources to effectively get credit for decarbonizing their value chain."

He added: "The stock is currently $6 HK dollars, our target is $12 HK dollars. This stock can go to $30 HK dollars if it wants to be valued like best-in-class international renewable developer peers. That's how cheap it is."

Last but not least, Breidert is also betting on a regional champion: **Renova** (9519.JP), a fast-growing Japanese renewable energy player with exposure to biomass and offshore wind.

"The punchline of a story like this is if you can find these developers in different markets before we look, if you understand the rules of engagement and why demand is going to appear," he said, "you can position yourself that early where only a few major contracts of any kind of scale can completely change the value creation opportunity for these companies."