

ACT Australian Cleantech Index

A Shocking Year for Environmental Investments!

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July 2010

Overall, the story of environmental investments in Australia is a depressing one compared to global cleantech stock performance. The drivers of this poor performance include weak and inconsistent political leadership on environmental issues.

This should be the time when the cleantech stocks start to significantly outperform all other stocks. It should be the time that those that have been investing in the sector finally get to say 'I told you so!' So why are the cleantech stocks in Australia faring so badly?

Companies that fall into the clean technology (cleantech) basket include those that are focussed on renewable energy (wind, solar, geothermal etc), water technologies, waste management and recycling, green buildings, energy efficiency, biomaterials, energy storage, vehicle technologies, environmental services, biofuels and carbon. The element that binds these diverse companies together is that their products and services all have both 'economic and environmental benefits'.

The public measure of cleantech, the ACT Australian Cleantech Index tracks 78 listed companies that generate the majority of their revenue (or future revenue if they have none) from defined cleantech activities. At the end of June 2010, their combined market capitalisation was just under A\$10 billion, falling from its peak of \$16.3 billion in July 2007. In FY07 and FY08, the Index outperformed both the ASX Small Ordinaries and the ASX200. In FY09 it fell by 39% - more than both of these benchmarks. During FY10, the story continued to get worse as the year progressed. The Index recorded a loss for the full year of 32.0%, lagging behind the S&P ASX200's gain of 11.8% and the S&P ASX Small Ordinaries' gain of 10.5%. The Index detached itself from the Small Ordinaries in August 2009 and progressively fell further behind as the year progressed.

There appears to be plenty of good news that one might think would drive a buoyant sector: the Renewable Energy Target is driving wind farms and, with feed-in tariffs, household solar installations; supply chain pressures are starting to build on the larger industrial companies; politicians are talking about energy efficiency measures (without mentioning that nasty ‘carbon’ word); and environmental standards in water, air quality, engine performance and recycling are all creeping up.

An analysis of the eight sub-indices that make up the Index does not provide further insight. All but the ACT Biofuels Index and the ACT Efficiency Index recorded significant losses for the full year. The overall collapse is therefore not being driven by the decline of only a few sub-sectors.

The recent results tell two stories. Firstly, and most obviously, the political environment in Australia and globally has shifted. The ‘greatest moral challenge’ became expendable, along with leadership, and provided further ammunition for those (understandably) trying to protect their emissions-intensive profits. The winds of change in environmental policy are consistently unpredictable. Companies cannot commit to changing the way they operate and investors punish any that are relying on favourable regulatory settings. There have been no signals whatsoever that there is any intention of moving towards a more sustainable economy.

Secondly, and more subtly, there is a growing sense of ‘climate fatigue’ within the community. It’s a bit like famine fatigue, the trend that charitable donations decline over time as disasters continue. There is only so much bad news that people can take before switching off from thinking about the environment and returning to ‘normal’ life.

These stories however provide the basis for a turning point. Rather than politicians having to talk about the bad news of the transition to a sustainable economy and depressing their constituents in the process, they could instead talk about the opportunities emerging from sustainability. More efficient businesses, less waste, greater recycling of all materials, higher standards of living, more fulfilling jobs and urban environments that are better places to live. With this view of the future, cleantech investments will thrive.

Is there a politician with enough courage to start this conversation? Anything is possible I suppose!

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(ACT/AC Index, S&P/ASX200 and S&P/ASX Small Ords Indices set at 100 at 30 June 2006)

