Clean technology stock pond still teems with life

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Despite the disruptive influences of vacillating political will in recent years, clean technology stocks have proved that the cream of the sector can do well without a government-funded leg-up. It polevaulted its pre-GFC peak of $16.3 billion in July 2007, and market capitalisation of the 64 stocks on the Australian CleanTech Index is now around $19 billion, after recent new highs.

Despite the relative obscurity of the cleantech sector and many of the stocks within it, the recent outperformance of the index against the main board will surprise many.

Over the six and 12 months to March 31, the Australian CleanTech Index recorded gains of 19.2 per cent and 23.2 per cent, about double the 11.3 per cent and 9.2 per cent respectively recorded by the S&P/ASX 200. Divided between five sub-indices of efficiency and storage, renewable energy – which both recorded above 10 per cent growth in the three months to March 31 – plus waste, water and environment, the CleanTech Index includes stocks with 50 per cent-plus of their core activities focused on environmental and economic benefits.

Not unlike its S&P/ASX 200 counterpart, the CleanTech Index is similarly top-heavy with the largest six stocks, including plumbing and bathroom supplier Reece Australia Holdings, recycling/waste management companies Sims Metal Management and Transpacific Industries, and clean energy company Energy Developments – plus two recently dual-listed Kiwi hydro-stocks – representing over 70 per cent of total market cap.

With the exception of one large cap, Energy Developments, and two mid caps, Beacon Lighting and Nanosonics, 11 of the 14 companies with gains of more than 25 per cent during the March quarter were early-stage start-ups with market caps of between $1.9 million (Mission NewEnergy) and $85 million (CleanTeQ Holdings).

Wind farm start-ups and more recently anything with a whiff of carbon about it have been obvious casualties of recent government policy, and on budget night the Coalition inflicted more pain.

The 2015 federal budget papers confirm that spending for the $10 billion Clean Energy Finance Corp (CEFC) and the Climate Change Authority (CCA) will be halted in fiscal 2016-17. Adding further insult to injury, the Australian Renewable Energy Agency, which funds emerging technologies such as wave energy, solar and storage, and off-grid systems, will also be absorbed back into the department and defunded.

Australia CleanTech managing director John O'Brien says international investors looking to finance renewable energy and carbon projects are loath to return to Australia's cleantech sector until regulatory certainty improves. "While it won't last, the current government's anti-environment stance remains a point of embarrassment globally," O'Brien says.

O'Brien says early-stage small caps that dominate the sector are being overlooked in favour of pre-revenue/profit cleantech companies that are less correlated to domestic economic growth. However, he says investors should note that neither waste and water, nor New Zealand's cleantech sector, are being negatively affected by the regulatory treatment. A lot of attention has been redirected across the Tasman, he says, where the renewable energy sector is considerably more stable. He encourages investors to watch out for more dual listings from New Zealand's listed cleantech sector, to add to recent large IPOs by Mighty River and Meridian Energy.

While cleantechs in the industrial and building energy efficiency space are expected to be first in the queue during the government's next round of Emission Reduction Fund handouts, the trickier part, O'Brien says, is finding out which ones will survive the journey from pre-revenue to commercial success. The pre-revenue end of the market is a tough place to be, and O'Brien also reminds investors that while some stocks such as BluGlass, Dyesol and Carnegie Wave Energy have huge potential, others still have a long way to go.