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Source : Barrons Date : 3 mai 2024

Renewable Energy Stocks Are Finally Riding the AI Wave

barrons.com/articles/renewable-energy-ai-stocks-77dd71ec

May 3, 2024

It has been a rough road for renewable energy stocks over the past year. Liesa Johannssen-Koppitz/Bloomberg

The data centers running artificial intelligence applications consume enormous amounts of power. As AI has become the biggest investment theme of 2024, several energy stocks that provide that electricity have been soaring. But renewable energy stocks have missed the party—until this week.

On Wednesday, Brookfield Asset Management announced a deal with Microsoft to build renewable energy projects with the capacity to produce 10.5 gigawatts of electricity in Europe and the U.S. between 2026 and 2030. The deal is nearly eight times as large as the next-biggest renewable power contract ever signed, according to Brookfield.

Shares of Brookfield Renewable Partners —which owns a stake in the projects and is the most direct way for investors to play the Microsoft deal—soared 11% on Wednesday and another 5.8% Thursday.

It's a rare instance of a renewable energy firm getting credit for renewable power's role in supplying electricity for data centers, many of which will be used to support artificial intelligence. The electricity demand from data centers could double or even triple before the end of the decade, some analysts have said.

Microsoft, a leader in AI, has said it will need substantial amounts of electricity to build its applications. The tech firm has made other deals to secure power sources, including partnering with Constellation Energy, the country's largest owner of nuclear plants.

Constellation, unlike renewables firms, has gotten plenty of credit from investors for helping power data centers. The stock has surged 143% in the past year, as investors have bought into the thesis that nuclear power will become a more important energy source as demand grows. Constellation sells its power into competitive power markets, where it has benefited from rising electricity rates, and from tech firms' desire for reliable, carbon-free electricity.

Brookfield Renewable stock, by comparison, has tumbled 17% over the past year, even after its strong showing on Wednesday and Thursday. That isn't unusual for renewable energy companies—the entire industry has been struggling: Shares of other major renewables players like NextEra Energy and AES are down 9% and 16%, respectively, in the past year. Elevated interest rates and supply-chain problems have outweighed the AI bump for these firms.

Renewable energy struggles when rates are high because the companies need to take on expensive debt to finance projects, which will pay off years into the future.

Brookfield's deal with Microsoft won't necessarily change that dynamic. Microsoft isn't paying for the cost of building the projects. The benefit for Brookfield is that Microsoft is committing to buying the power these projects eventually produce at the prevailing market prices, according to Brookfield. With a customer like Microsoft already in place, Brookfield can now move ahead with things like buying supplies without worrying about demand.

"It's very beneficial to us and it allows us to optimize our development process," said Stephen Gallagher, the chief executive officer of Brookfield Renewable U.S., in an interview. "If you're building 10 gigawatts over five years, and you have line of sight into offtake for all of that, it allows you to get ahead of a lot of the aspects of development—long-term panel procurements, transformers, racking. There are material benefits from economies of scale."

The deal also benefits Microsoft, by allowing the company to secure an enormous amount of renewable capacity from a well-known player at a time when new electricity capacity is in short supply. Microsoft has committed to net-zero carbon emissions from its electricity use by 2030, so securing renewables capacity is important.

"Microsoft wants to use our influence and purchasing power to create lasting positive impact for all electricity consumers," said Adrian Anderson, Microsoft's general manager of Renewables, Carbon Free Energy, and Carbon Dioxide Removal, in a statement.

Renewables are the fastest-growing source of power in the U.S., but they have faced criticism because the power they produce is intermittent (solar only works when the sun shines).

The nonprofit North American Electric Reliability Corporation (NERC) has warned the system needs "dispatchable" power sources that can be turned on during peak demand. Several utilities are planning to add natural gas generators to handle the influx of electricity demand from data centers over the next decade.

Gallagher says renewables can still be a big part of the growth in electricity supply, even if they can't be turned on and off in the same way as natural gas. Renewables have also become more reliable as projects add battery storage.

"The idea that renewables are unreliable is an unfair criticism," he said. "It doesn't have to be gas or renewable. I think you need a mixture of all of the above."