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Fossil fuels and clean-energy shares are unloved by investors. That's an opportunity, say our roundtable experts. Why some stocks could double, and then some.

By [Avi Salzman](#)

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Energy has been at the center of some of the biggest stories in the past year, from the Israel-Hamas war to the enormous electricity consumption of artificial-intelligence applications. Investing around these world-changing events has been tricky.

To understand the risks and opportunities for investors, *Barron's* convened a roundtable of industry experts that met May 9 on Zoom. The group included Natasha Kaneva, head of global commodities strategy at J.P. Morgan; Stephen Byrd, global head of sustainability and

clean-tech research at Morgan Stanley; Stan Majcher, an energy-focused portfolio manager at Hotchkis & Wiley; and Lucas White, a natural-resources and climate-focused portfolio manager at GMO.

The group discussed oil prices, geopolitics, and the green energy transition, and Byrd, Majcher, and White shared their favorite stock picks—including a few stocks that could potentially double or triple. An edited version of the conversation follows.

Barron's: The energy market has been at the center of a geopolitical storm in the past year, particularly since the Israel-Hamas war began in October. Israel and Iran even shot missiles at each other recently. Yet, oil prices have slumped lately rather than rising. Natasha, what's going on?

Natasha Kaneva: You're forgetting we have *two* wars going on. The second-largest oil producer, Russia, is attacking an independent European country. And yet, the geopolitical risk premium is at zero in the oil market. There are three reasons.

First, the main players in the Middle East have strong incentives to make sure the current conflict doesn't expand beyond the current geographical positions, and so far they have acted accordingly. The Gulf states have been trying in recent years to re-establish their diplomatic relationships with Israel and Iran. All of them are aware that these massive economic and sociological transitions that they're trying to establish are impossible with a militarized Iran. Saudi Arabia is the most visible. The country is spending \$3.2 trillion to move away from oil and become a logistical hub, a hub for tourists, for fintech, and so on.

Second, in 1973 the majority of the buyers of Gulf oil were the U.S. and some European countries. At the moment, two-thirds of that oil is going to Asia—China being the biggest buyer. So, geopolitically the situation is different.

The final point is that 100% of the oil that Iran sells goes through the Strait of Hormuz [the main passageway from the Persian Gulf]. It has no other option. It isn't in Iran's interest to shut down the strait, considering how much it and its neighbors depend on it. The probability [of a shutdown] isn't zero, but it is very low.

Stan, do you agree?

Stan Majcher: I would agree. Geopolitical risk isn't in the price of oil today. In general, the world focuses on risk headlines. The risks in the oil market are from things that are more long term. Natasha mentioned Saudi Arabia and the Middle East spending money on other things. The big risk to the world is that the balance sheets of producers aren't expanding. The world is underspending. In order to grow production, balance sheets in energy need to expand. In the U.S., companies are shrinking their balance sheets—they're paying down

debt, they're buying back stock. In the long run, with growing demand, the real risk isn't the geopolitical issues that are getting all the headlines. They are the boring risks that take longer to come to the surface.

Everyone was talking about \$100 oil about a month ago. Nobody is talking about it anymore. Is oil now in a downtrend? Is \$100-a-barrel oil still possible this year?

Kaneva: There is about a 25% probability that we can get close to \$100 by August or September. We're still too early. The peak driving season starts on Memorial Day; that's when the real tightness will come into the market. If you had asked me last year about the probability of \$100 oil, my answer would have been zero. At the moment, it isn't. That isn't because of the geopolitical situation, but because **Russia is cutting production, which was unexpected.** We thought Russia would be pushing to increase production. We expect OPEC [the Organization of the Petroleum Exporting Countries] to extend its production cuts through the second half of the year. So on paper, and without any offsetting mechanisms, we can get to \$100 or the high \$90s by late summer.

Stan, is this a hospitable environment to invest in traditional energy stocks?

Majcher: It is one of the best environments that I've seen, for a variety of reasons. The world economy looks fairly good—not great, not terrible—and along with that, you have a disciplined OPEC.

As we see it, the world economy is growing longer term, people are getting wealthier, and they're going to consume more hydrocarbons. But what is really unique about this situation is the supply. What kills the commodity market is excess supply. We don't see the U.S. growing [oil production] rapidly. It has been flat for six months. Some of the data pointing to rapid growth in the U.S. over the past year are overstated.

In the past decade, U.S. oil supply grew rapidly. It was all of the world's oil supply growth. There were three ingredients for that, and they are largely gone. One, a lot of resources were immature and could be developed. Companies had a lot of access to capital. Investors were willing to fund money-burning companies in the U.S. that were going to grow. And, you had desire. The management teams wanted to grow because there were incentives.

Portfolio manager Stan Majcher at the offices of Hotchkis and Wiley in Los Angeles.
Photograph by Roger Kisby

All three of those things have changed. The resource base has matured. The access to capital is low. Banks don't want to lend. And there's a lack of desire. Management teams don't want to grow. They are now incentivized to generate free cash flow, and return that to shareholders.

The oil industry used to be characterized by entrepreneurial wildcatter energy: Drill wherever you can until you hit a gusher. Now it's all about slow growth, cash flow, and buybacks. Meanwhile, new trends are popping up that seem to have stolen that wildcatter energy. There is a lot of interest and investment activity around the energy needed to power artificial-intelligence applications. Nuclear stocks have suddenly doubled, and some people are giving beaten-down renewables another look. Lucas, what does the investment landscape look like for somebody who is trying to invest in a broader slate of energy stocks?

Lucas White: I invest in both fossil fuel companies and clean energy, and both are very cheap. If you went back a few years ago—to 2020, 2021—fossil fuel companies were trading at the cheapest levels we have ever seen. They are still extremely cheap. This is a fundamentally unloved sector of the market.

People have never liked investing in fossil fuel companies. There are oil spills and accidents. It's a nasty, dirty business. Investors could stomach that if you give them stability, but fossil fuel companies have never been able to provide stability because the oil price is volatile.

The stocks are attractive from a valuation perspective. You don't really need oil prices to rise. If oil prices go to \$100 a barrel, great. That's gravy. But if they stay right where they are, these companies will be cranking out midteens free-cash-flow yields. They will be generating strong returns for their investors.

On the clean-energy side, companies were much more expensive three or four years ago than they are today. The WilderHill Clean Energy Index, for example, is down about 80% from its February 2021 peak. It is in the same ballpark as fossil fuels a few years ago. Fossil fuel stocks are up about 300% in the past four years, more than triple the return of the broad equity market, because they had been so cheap and fossil fuel prices have risen a bit. Clean energy now is similarly unloved.

If you look at the long-term growth prospects—whether solar or biofuels or other areas of the clean-energy landscape—the companies are trading cheaply relative to their long-term prospects. Clean energy currently checks all the boxes for strong long-term returns because the pricing doesn't make sense relative to the long-term profitability prospects.

Stephen, you have been following a story that's a little bit about clean energy, and a lot about technology—specifically, artificial intelligence. It might be the hottest trend in energy now—how AI data centers are leading to increasing electricity consumption, something we haven't seen in this country for decades. How do people interested in energy think about investing in this phenomenon?

Stephen Byrd: For decades, the demand for power in the U.S. has been flat. That isn't an exciting environment in which to invest. Even with a flat dynamic, clean energy has been taking share for years, mostly from coal. But now we have a shot in the arm. We have real

demand growth that is quite significant. Electricity demand growth in the U.S. is about 2% a year.

That might not sound super exciting, but it is large in terms of dollars. We see a significant shift in U.S. power generation away from coal and toward renewables. This shift, coupled with organic power-demand growth, will result in more than a tripling of solar power in the U.S. by 2030. To Lucas's point, that isn't priced into many stocks.

Does that mean fossil fuels are in trouble?

Byrd: It doesn't mean it's an apocalypse for fossil fuels. It's actually the opposite. We've seen natural-gas demand rising in the power space. It's all hands on deck. We've got to meet this demand.

The weak link is transmission. It can't grow as fast, mostly due to regulatory hurdles to getting more transmission projects done. It requires a lot of permits. There is often opposition. In many power grids, not just in the U.S. but around the world, the lag time to get a data center operational is increasing.

All companies are looking for any solution that will get them power quickly. The answer to that, in many markets, has been nuclear power. We expect to see extremely large supercomputers get built behind the fence line at existing U.S. nuclear power plants. That is going to happen because the power is available, and there is a massive amount of land at nuclear power plants.

The stocks of independent power producers have reacted to this quite dramatically. Shares of Vistra, a Texas-based power producer with nuclear and natural-gas plants, are up 100% this year on this dynamic of rising power needs. Forward power prices are also responding.

As Lucas said, though, clean energy has been overlooked here. We are on board with bullish views about nuclear power, but that isn't the end of the story. Clean energy is also part of this story, and many of those stocks haven't really priced in anything in terms of growth. I find that remarkable, after Microsoft announced 10 gigawatts of new clean power [with Brookfield Asset Management] recently.

This is a long way of saying we are excited about clean energy. It is one of the most exciting times to be investing. The valuations are depressed, and the growth outlook is inflecting in a favorable way, with customers who are relatively price insensitive.

Historically, an investor interested in energy could buy an oil- and gas-focused exchange-traded fund, like the XLE [Energy Select Sector SPDR], or an energy-focused mutual fund. Does someone looking to profit from growing energy demand have to look further afield now? Should people consider nuclear again, or do their homework on renewables, which aren't in the major energy indexes?

Byrd: I have thoughts on that. Even though we're bullish on renewables growth, you've got to be really careful about the equities you decide to invest in. The biggest concern I've always had is the lack of barriers to entry. Many of these business models are relatively commoditized. We steer clear generally of these types of plays. There are many different models that are likely to generate low returns on capital. So, yes, we're bullish on growth but you have to be nuanced.

Nuclear, we are excited about, for a variety of reasons. There is a limited set of players that have the expertise to operate a nuclear plant. It is a scarce asset, so the value per nuclear plant is rising.

Let's take a poll. If someone is investing in energy right now, what percentage should be in traditional fossil fuels, and what percentage should be in alternatives, be it nuclear or renewables? Stan, what is your view?

Majcher: We don't have much of anything in renewables. Where we are finding the best opportunities is 90% to 100% traditional energy companies.

Stephen, what are your numbers?

Byrd: Every way I look at it, it would be a majority fossil fuel. Among our Overweight [Buy-rated] stocks, we have a larger group in energy where the market-cap upside is bigger than the market-cap upside in clean energy. That said, in a few clean-energy names the percentage of upside is greater, but the investment opportunity overall is still smaller. That shows up in the energy mix: Clean energy globally—wind and solar—is a little more than 15% of power. And that's going to grow quickly.

Lucas, do you have an ideal weighting at the moment?

White: Obviously, I have the right answer for this question, because we're two-thirds fossil fuels and one-third clean energy. But, no, there is no right answer to that question, or a simple answer, because what are you being evaluated against? Our benchmark for our natural-resources strategy has a lot of fossil fuels in it, and effectively no clean energy. Yet, clean energy is a substantial portion of our natural-resources strategy.

The fossil fuels industry is unloved by equity investors. A lot of endowments, foundations, and institutional investors have divested from the sector. That means it is unlikely fossil fuel companies will go from being really cheap, as they are right now, to the more normal valuations they had historically. To put some numbers on that, fossil fuel companies are now trading at about a 70% discount to the broad equity market. On average over the past 100 years, they have traded at closer to a 20% discount to the broad equity market.

You could invest in fossil fuel companies thinking that gap is going to shrink. If the discount goes from 70% to 20%, you'll make a lot of money quickly. But I suspect that isn't the most likely path.

Let's say you own fossil fuel companies for the next 10 or 20 years. They will out-yield the market. You don't know exactly how you're going to receive that return, but if you're investing in companies that are cranking out a 15% free-cash-flow yield through dividends, special dividends, share repurchases, and merger-and-acquisition activity, somehow you will receive that return. It doesn't disappear into thin air.

Clean energy, on the other hand, is likely to see a substantial rerating at some point in the next few years. You'll see companies go up 100%, 200%, 300%, 500%, depending on how close to death's doorstep they are right now. Shares of the industry's survivors will go up hundreds of percentage points. Higher-quality, more stable companies will do well, too.

You'll get an interesting diversification in how the different investment opportunities play out.

When you start talking about 100% or 200%—or 500%—returns, people start listening more closely. Let's hear some of your picks.

White: I'll give you an example from relatively recent history. Late last year, the Federal Reserve indicated it was guiding for three rate cuts in 2024. The world has changed, and not all those rate cuts may come through. But shares of Sunrun, a major developer and installer of solar panels, went from \$10 to \$20 in the two months after the Fed's disclosure. The stock went up because of the Fed's rate-cut guidance.

Now that there is skepticism about whether there will be any rate cuts this year, the stock price has come back down. But the point is, you don't need a lot to go right for companies in the solar and biofuels space. We have the Inflation Reduction Act money starting to flow this year. Electricity prices are rising. These are all potential tailwinds for clean energy. When you have depressed sentiment and cheap stock prices, you don't need major things to happen to have a 100% or 200% rerating.

Fossil fuel stocks are up about 300% in the past few years. You would have sounded crazy four years ago saying that fossil fuel shares would go up 300%, but that's what happened.

Do you expect Sunrun to be one of the big winners?

White: Sunrun is differentiated by its scale. It has a chance to be a long-term winner. It isn't the safest stock. As Stephen mentioned earlier, clean energy is a scary place to invest. There are a lot of companies that don't have a competitive advantage, so they get a low return on capital. Solar-panel manufacturing is a low return-on-capital business. It is a commoditized technology with low barriers to entry. Solar could do brilliantly over the next 20 years, and you might not make much of a return investing in solar-panel manufacturers.

We have a **quality bias** to how we think about clean-energy companies. We also have a value orientation. That points to Sunrun, and [solar manufacturer] **First Solar**, and [solar-equipment maker] **SolarEdge Technologies**. Companies in the biofuels space, such as **Darling Ingredients** and **Neste**, are also relatively high-quality, have a competitive edge, and are trading cheaply relative to their long-term profitability. I wouldn't pick one company and invest in it. I would find a basket of high-quality stocks, understanding that there is going to be a lot of volatility and wild swings along the way. But their endpoint should be much higher than their starting point.

Stephen, you have also highlighted some potential winners in these areas—power generation and cleaner energy.

Byrd: Yes. I'd highlight **Sunrun** and **Bloom Energy** as two examples. Both companies essentially are driven by the growing disconnect we see: Utility bills continue to rise, and the cost for these clean-technology products continues to fall. Both companies have fairly high barriers to entry. As Lucas mentioned, **Sunrun** has scale. It has a brand. It has cost efficiencies and financing efficiencies. It offers its customers significant savings. The rate of return for Sunrun is extremely high; we like that a lot. The growth outlook looks good, because the trend of high utility bills is just going to continue.

Bloom Energy plays on this dynamic, as well as the data-center and GenAI dynamic. Bloom's product, which sort of looks like a refrigerator, provides power to commercial customers. Pre-Covid, it was reducing its costs every year by 10% or 15%. During Covid, that flattened out to a sort of zero to minus 5%, but it's back on track for significant cost reductions. So, for example, its product would be less than \$100 a megawatt-hour. In California, the rate that would be charged to data-center companies is much higher than that, and growing quite rapidly.

Bloom Energy provides both an economic benefit and a time benefit for data-center developers. Instead of waiting five, six, seven years, and sometimes longer to get connected to the grid, Bloom's product can be on site in 50 days. Not much has to go right for the stock, frankly, for it to do well, given what's priced in. There is skepticism that a company like Bloom can really serve the data-center market. We disagree. We think it will sign large contracts, and the stock will rerate fairly dramatically.

Bloom is also involved in hydrogen. Another hydrogen company, Plug Power, has run into financial trouble because it has been burning cash as its factories get up and running. Is it fair to lump them together, or does Bloom have a different business model?

Byrd: The nice thing about Bloom is that it can use natural gas, which is what it typically does today. Some of its tech clients want to use biogas. Even though it is more expensive, it has negative carbon emissions. The same is true for hydrogen. Bloom is fairly fuel agnostic,

which we like. Compared with Plug Power, Bloom has shown capital discipline. It is in a good position to produce 6% cash flow, whereas our concern for Plug has been a lack of capital discipline.

You expect natural gas to benefit as electricity demand rises. Are there other names that people should look at?

Byrd: Yes. Earlier this year, we were fairly bearish on natural-gas prices, and prices fell quite dramatically. Then we saw [gas producers reduce drilling], and now we look to be fairly constructive on U.S. natural-gas pricing going up to above \$4 per MMBtu [million British thermal units] in 2025 from under \$2.50 today. That's a real change to the narrative.

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Stan, for people thinking about traditional energy stocks, should they plow money into well-known names like Exxon Mobil and Chevron? Or should they invest in some of the shale companies, or even international companies, to get bigger returns over the next several months?

Majcher: All of the above. What we see in the stock market is that the valuations just don't reflect the free-cash-flow and earnings potential of these companies. Instead of focusing on the geopolitics or the economy, we would tell investors to focus on share repurchases.

Independent power producers were mentioned earlier. Those companies have come into favor in a dramatic way recently. Some of the stocks are up over 100%. If you look over the past five years, these companies were aggressively buying back stock. In the oil and gas business, companies are generating free cash flow, and they're buying back a lot of stock. With share repurchases, the lower the share price and the better the valuation, the more powerful buybacks are. Companies trading at large free-cash-flow yields that are buying back stock are compounding that free cash flow at a higher rate.

An example we own is Marathon Oil. Over the past 2½ years, Marathon bought back 29% of its shares. So, what does that mean? For the same amount of earnings, the earnings per share grows more than 40% because of those share repurchases.

Looking at the big picture, what are the stocks that are interesting to us? In large-caps, we have Shell. It trades for less than 10 times earnings and free cash flow. They are synonymous to us. Shell has a fantastic balance sheet, probably with \$40 billion of debt capacity. It has a 10.8% earnings yield. It is using all its earnings to buy back stock and pay dividends. The dividend yield is a little over 4%, and the share repurchases are about 6% of shares outstanding. We also like that Shell is in the natural-gas business. We think there's going to be volatility in gas, and that benefits their trading arm.

As for the smaller companies, we can find companies trading at 15% to 20% free-cash-flow yields. If you think about that relative to the broader market, the market is trading for 22 times earnings, or a little over a 4% earnings yield. If you can find a company with a 17% or 20% free-cash-flow yield, and it can buy back stock, that's truly amazing.

There are two names we would highlight in that group. One is APA, which used to be known as Apache. It trades around \$30 a share. The earnings yield is about 17%. What's nice about this company is that it has about \$13 a share in assets that currently aren't producing earnings or free cash flow. They range from discoveries off the coast of Suriname to an LNG [liquefied natural gas] contract with Cheniere Energy, and net operating losses that can shield taxes. All of those assets, you're getting for free.

The other one would be Kosmos Energy. It trades for about five times earnings, for a 20% free-cash-flow yield. It has some offshore LNG assets that should come on later this year that we think you're getting for free. They are probably worth about \$3 a share, or half the current share price. Kosmos currently isn't buying back stock, but is going to start generating a lot of free cash flow to pay down debt. Eventually, it will buy back stock.

So, your sense is that even if oil prices don't shoot higher, things like share repurchases and increasing efficiency are going to keep these stocks going up?

Majcher: Yes. Eventually they will go up.

Lucas, you said your natural-resources fund is still mostly in fossil fuels. What is something investors should look at in that realm?

White: Stan hit on it. I'll characterize things slightly differently, but in the big picture, I agree with him. If you look at the big U.S. energy companies—Exxon, Chevron, EOG, and companies like that—they're priced to give you a good return, although you're not going to see the 15% to 20% free-cash-flow yields that Stan is quoting. If an investor is scared of investing in energy, and investing in Exxon or Chevron seems like a relatively safe way to invest, I can't say that's a bad investment.

But to Stan's point, you can find much higher free-cash-flow yields and expected returns if you're willing to look at small-cap stocks—Kosmos being a good example—or you're willing to look outside the U.S. or outside developed markets. Look to Brazil for Petrobras, or look to Argentina for YPF and Vista Energy. There are opportunities, once again, to find companies that are putting up midteen to almost 20% free-cash-flow yields.

Petrobras returned 80% or more of its start-of-the-year market cap last year in dividends, special dividends, and share repurchases. That's how you know there is a major mispricing. In one year, they give you back 80% of your capital. Things like that are going to happen—

not 80% necessarily, but you're going to see companies returning a lot of capital. Whether the market smartens up about it doesn't really matter. You're going to receive those returns in one way, shape, or form.

Which of those smaller companies with 15% to 20% cash-flow yields would you bet on here?

White: Kosmos is our favorite in terms of the smaller-cap names. That's a little boring, because Stan already mentioned it.

Byrd: Well, we do see upside in both. I'm excited because both of those companies have a rare commodity: nuclear plants that are perfect for powering massive supercomputers. There is a scarcity of those sites. If you can get a data center connected to power quickly, our math shows that hyperscalers [large data-center operators like [Amazon.com](https://www.amazon.com)] would be willing to pay a huge premium for power. We expect to see very lucrative contracts.

That said, clean-energy companies that are also going to play in this area have been overlooked. Let me walk through what I see happening. Phase one is essentially that huge supercomputers will be built at nuclear plants. A lot of the power that these nukes would otherwise provide to the grid is now going to be siphoned away by these data centers. There are hyperscalers with net-zero [carbon emissions] goals, and we would expect to see very large renewables projects built to try to offset that. [Hyperscalers, such as Amazon and [Microsoft](https://www.microsoft.com), would contract to receive electricity directly from nuclear power plants. Because those deals would siphon clean power away from the grid, they would then finance renewables development to compensate for the loss from a clean energy standpoint.]

If nothing else gets built, natural-gas plants will run much more often. But hyperscalers have a focus on trying to keep their emissions low. We expect to see many announcements similar to Microsoft announcing 10 gigawatts of renewables. [AES](https://www.aes.com) would benefit the most, and it's not priced into the company's stock.

[AES](https://www.aes.com) is a huge U.S. developer of clean energy. It has worked extensively with the hyperscalers. We'd expect the company to announce much faster growth in clean energy, driven by this sort of second-step dynamic that the hyperscalers want [financing clean energy to offset carbon emissions] to ensure that their overall power operations have low carbon emissions. That doesn't mean natural gas will lose; it will participate in helping meet the increasing demand for electricity. It's just that the share for renewables has been deeply mispriced. Today, [AES](https://www.aes.com) looks more attractive than the nuclear players.

What about companies that build out electricity transmission?

Byrd: [Siemens Energy](https://www.siemens-energy.com) would be a good example of that. Its grid-services business has been performing really well. The growth outlook for that business looks extremely constructive—literally—for decades to come.

Utility stocks have mostly been left out of this trend, but some seem to be benefiting from growing electricity demand. What is your view?

Byrd: I wouldn't play a pure utility based on this dynamic. While you'll see higher power demand, there are so many other pressures on utilities. It is hard for them to achieve dramatically higher earnings-per-share growth.

Look at Dominion Energy's stock as an example. The company is at the heart of data-center activity, yet earnings-per-share growth isn't dramatically different from other utilities. It is too tough for utilities to overcome transmission bottlenecks and suddenly break out and achieve much higher earnings growth.

Renewable players like AES and NextEra Energy can provide the power needed, and their competitive arms will grow much faster than utilities.

Thank you, everyone.