Third Party Research June 12, 2018

Solar Power: Still A Stellar Investment

***e*Research Corporation** is pleased to provide an article courtesy of **Investing Daily**.

The article is reproduced below, beginning on the next page, or you can go directly to it at the following link: https://www.investingdaily.com/42335/solar-sector-retreats-on-china-decision

You can also visit the **Investing Daily** website at the link below:
https://www.investingdaily.com/

***e*Research** was established in 2000 as Canada's first equity issuer-sponsored research organization. As a primary source for professional investment research, our Subscribers (*subscription is free!!!*) benefit by having written research on a variety of small- and mid-cap, under-covered companies. We also provide unsponsored research reports on middle and larger-sized companies, using a combination of fundamental and technical analysis. We complement our corporate research coverage with a diversified selection of informative, insightful, and thought-provoking research publications from a wide variety of investment professionals. We provide our professional investment research and analysis directly to our extensive subscriber network of discerning investors, and electronically through our website: www.eresearch.ca.

Bob Weir, CFA: Director of Research

Solar Power: Still A Stellar Investment

By Robert Rapier
June 12, 2018

More than 20 years ago, I made an investment decision that worked out really well. Based on a confluence of economic and demographic trends, I believed that the health-care sector would likely out-perform the broader market over the long term. Consequently, I began to invest disproportionately in the sector.

My hypothesis turned out to be correct. Although there have been a few corrections over time, the health-care sector has outperformed the S&P 500 by a large margin over the past couple of decades.

If I were making a decision today for the next 20 years, I would invest disproportionately in the solar power sector. I strongly feel that solar power is destined to become our most important source of energy.

I am confident that my solar bet will pay off, just as my bet paid off on health-care.

Since January 1999, the **Health Care Select Sector SPDR Fund** (XLV) has nearly doubled the performance of the S&P 500:

Over this time-frame, there have been booms and busts in the health-care sector, as well as long periods of flat performance. But the patient investor was amply rewarded.

Solar power is poised for a similar trajectory.

Solar stocks have boomed over the past year. **Solaredge Technologies** (NSDQ: SEDG), a manufacturer of inverters, rose by more than 200%. **First Solar** (NSDQ: FSLR) more than doubled in price.

But the solar sector will experience its own booms and busts. Just last week the solar sector sold off sharply. What happened, and is it a reason to now avoid the sector?

China Taps The Brakes

The trigger for the sell-off was an announcement by the Chinese government that it would take measures that would likely curb the astronomical growth of its solar industry. The *South China Morning Post* reported:

“A joint statement put out on Friday by the National Development and Reform Commission, Ministry of Finance and National Energy Administration said the allocation of quotas for new projects had been halted until further notice, and tariffs on electricity generated from clean energy will be lowered by 0.05 yuan per kilowatt hour, a cut of 6.7% to 9% depending on the region, effective June 1.”

The Chinese government indicated that the curtailment was aimed at “promoting the solar energy sector’s sustainable development, enhancing its development quality, and speeding up a reduction of subsidies.”

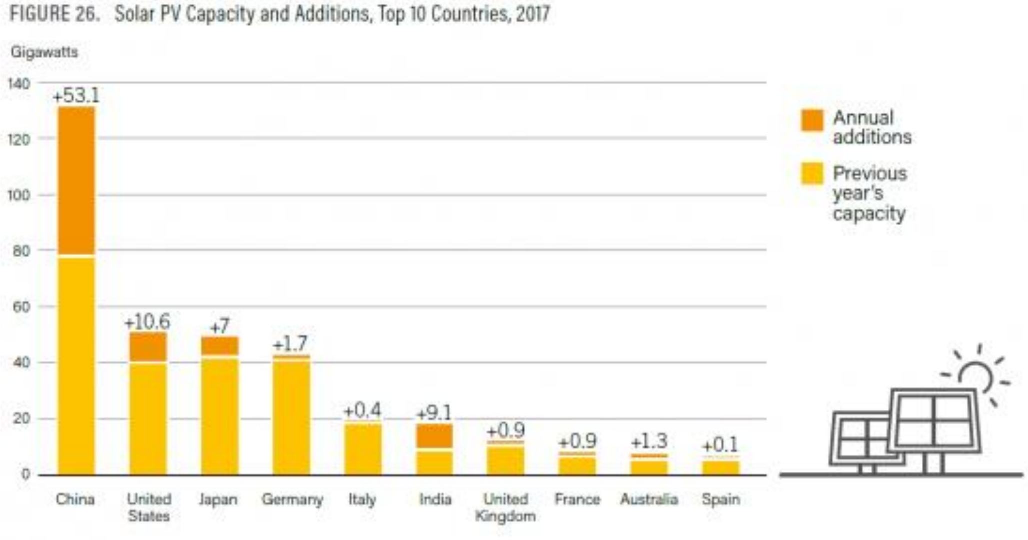
The entire solar sector sold off, but Chinese companies were hit especially hard. Analysts lowered estimates for new solar photovoltaic (PV) installations in China this year from 45 gigawatts (GW) down to 30 GW. Multiple analysts downgraded the sector, declaring it to be in a downturn.

Of course, China was not the first country to slash subsidies for renewable energy, but it is in a different position than other countries that have cut subsidies. In Germany and Spain, for example, power demand was relatively stable and renewables were helping to replace power derived from fossil fuels and nuclear power.

China’s energy consumption, on the other hand, is growing rapidly. As a result, the country has had an aggressive “all of the above” energy strategy. China has added solar PV capacity faster than any other energy source and has done so at a rate faster than any other major country.

A primary motivation for China’s solar PV investments is the country’s need to curb pollution. But China also faces a future in which oil supplies are depleting while electric vehicles are proliferating. Thus, China sees renewable energy — and solar PV in particular — as a critical area of focus. To put China’s growth in perspective, in 2017 alone China added 53 GW of new solar PV capacity. That addition was greater than the total solar PV capacity of any country at the beginning of 2017:

FIGURE 26. Solar PV Capacity and Additions, Top 10 Countries, 2017



Source: *REN21 2018 Global Status Report*

Given China's growing need for clean power, its decision to curb subsidies caught many, including me, by surprise. Why would China make such a decision?

A Trade War Casualty

The decision may be rooted in actions of the Trump administration. Earlier this year, President Trump announced a 30% tariff on imported solar equipment that would last at least the next four years. The decision was a response to a couple of U.S. solar companies charging that China's solar subsidies were allowing Chinese solar companies to undercut U.S. solar manufacturers.

Reuters reported last week that these tariffs have already resulted in the cancellation of more than $2.5 billion in large installation projects in the USA — more than double the $1 billion in new spending plans announced to take advantage of the tariffs.

Because China is the world's leading consumer of solar power by far, I did not expect this decision to have a huge impact on China's solar industry. But now that a larger trade war looms, China may be signalling to the U.S.A. that it will stop allowing Chinese solar panel makers to substantially undercut U.S. manufacturers.

Although the overall growth rate of the solar industry may suffer, in the long run, solar PV is still all-but-certain to outgrow every other energy category. In the short-term, this decision will create a lot of uncertainty around the industry, but we will look back on it as just a minor bump in the road.

I decided to take advantage of the sell-off. Given the sudden change in outlook, I sold some cash-covered puts on one of the leading solar power companies at an attractive price. I got an annualized yield of 22% on the cash I risked, and if I "lose" on the trade I will end up with shares of this high-quality company at a 10% discount to the price after what has already been a steep sell-off. In the long run, that is a trade that I expect to work out well.

(BW: If the Author is so bullish on the solar sector, I wonder why he had some "puts"?)

#####

Website: https://www.investingdaily.com/

See ABOUT THE AUTHOR on the following page.

ABOUT THE AUTHOR

It's hard to imagine anyone better suited to covering the energy-investment waterfront than Robert Rapier. Robert is no armchair analyst—he has two decades of in-the-trenches experience in a wide range of fossil fuel and biofuel technologies, including refining, natural gas production, gas-to-liquids, ethanol production and butanol production. During a six-year stretch at ConocoPhillips, Robert ran a team of engineers in Scotland working on oil and gas projects in the North Sea.

For two years, Robert was an efficiency expert in a Texas petrochemical plant. The process changes he implemented saved the facility $9 million a year. He later worked as the Engineering Director for a Dutch environmental-technology company and provided engineering support for a Chinese facility the company was constructing.

Robert was also a butanol engineer in Germany for the Celanese Corporation, where he designed a novel butanol unit that cut production costs by $5 million per year.

In all, Robert has spent more than a dozen years working on liquid fuels technologies. Along the way he's picked up five patents, including one for a breakthrough way to convert ethane into ethylene (U.S. Patent 7,074,977).

Now, in addition to guiding readers to timely energy plays in his twice-monthly *Energy Strategist*, Robert travels the world evaluating startup energy companies for deep-pocketed investors. After grilling management and assessing the technology on-site, he makes a go/no-go investment decision. His wealthy private investors and hedge fund backers trust him to make the right choice for the same reason we do: his vast real-world experience in just about every facet of the energy industry. If Robert votes thumbs-up, millions of dollars flow into these cutting-edge outfits.

Robert earned his master of science in chemical engineering and a bachelor of science in chemistry and mathematics (double major) at Texas A&M University. He tells us he was "this close" to finishing his Ph.D. before he decided he was having a lot more fun making money in energy stocks.

A prolific writer, Robert's articles have appeared in *Forbes*, *The Wall Street Journal*, *The Washington Post* and the *Christian Science Monitor* — and he has been a featured expert on *60 Minutes* and *The History Channel*. His new book, *Power Plays: Energy Options in the Age of Peak Oil* (Apress, 2012), helps investors sort through doom and gloom, hype and misinformation to understand the true costs, benefits and trade-offs for each of our major energy options.

In what little spare time he has left, Robert consults for a number of energy projects, including biodiesel, ethanol, butanol and biomass gasification facilities.