Energy and Capital

2014 Alternative Energy Stock Predictions

5 Energy Stocks to Own for 2014

By Jeff Siegel
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There's no doubt about it: 2013 was a fantastic year for alternative energy investors.

The big story this year was Tesla (NASDAQ: TSLA). A company that we began touting years before the company even went public, Tesla soared this year, taking the stock from $34.71 in January to a high of $194.50 a share in September.

Folks, a 460% gain from an electric car company in just nine months would've been laughable in 2013. Today, it's the one of the most hyped stories in the world of finance...

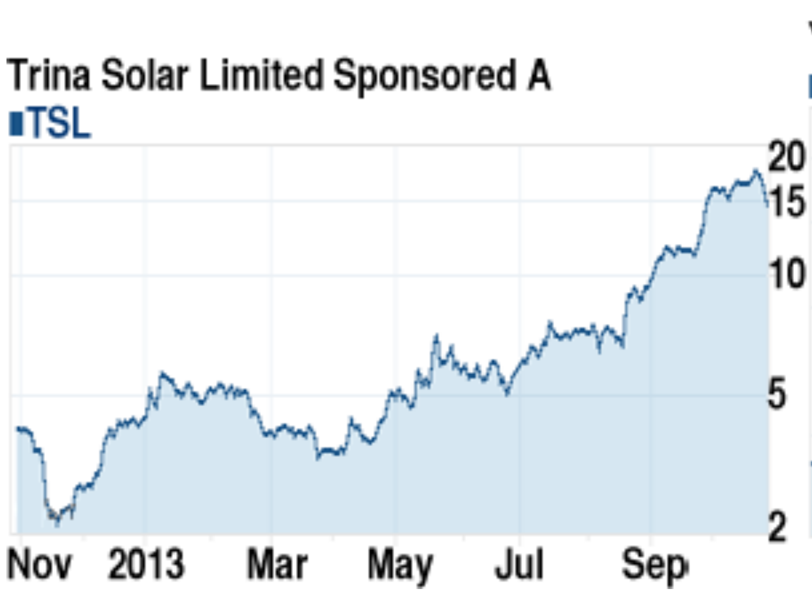
And if you listened to me a couple of years ago on this one, this also turned out to be one of your biggest gains ever.

Of course, while we remain bullish on Tesla as a force (and Elon Musk as the man behind that force), from an investment standpoint, we've already taken our winnings off the table. The company will likely continue to prove to be a great disruptor in the auto manufacturing space; but from a risk vs. reward scenario, Tesla is no longer particularly attractive for us.

That being said, if you're looking for a new car, you can't go wrong with a Model S.

Another big winner for us this year was *another* company in which Elon Musk has his hooks: SolarCity (NASDAQ: SCTY). SolarCity started the year at around $13.00 a share. Just this month, it a high of $64.50. That's a 396% gain in less than a year!

There were also a few more solar stocks that crushed it this year. These include:



All in all, 2013 turned out to be a great year to be an alternative energy investor.

The question now, however, is how will 2014 pan out for alternative energy bulls?

A Darwinian Smackdown

From 2005 to 2008, a massive alternative energy bubble was created.

Sure, in that time, we made a fortune... however, once the global economy imploded, recessions kicked in, and investment dried up, the alternative energy sector was particularly damaged.

But this turned out to be a good thing, as it enabled a much-needed Darwinian smackdown to wipe out the laggards and send the inferior companies packing. What was left was simply a handful of major players and an urgent quest to make the best mousetrap.

That's where we are now.

The only alternative energy companies left standing today are those with massive amounts of capital (or access to massive amounts of capital), disruptive technologies, and game-changing business models. Going into 2014, this is where we're focusing our alternative energy dollars.

Now before moving on, understand that while there's still an enormous amount of money to be made in the alternative energy sector, only a fool would ignore the necessity of diversification in the energy space.

In other words, while we continue to profit from alternative energy, we're certainly not turning a blind eye to things like domestic oil and gas and even coal, which I believe will begin to rebound in 2014.

But today, our focus is on alternative energy. So here are five alternative energy stocks on which I am bullish for 2014...

Hannon Armstrong Sustainable Capital, Inc. (NYSE: HASI)

Hannon Armstrong is basically a specialty finance outfit that offers debt and equity financing for modern energy and sustainable infrastructure projects. The company has actually been around for more than 30 years, and since 2000 has provided or arranged nearly $4 billion of financing.

HASI focuses primarily on infrastructure projects that have high credit quality obligors, fully contracted revenue streams, and of course, inherent economic value. Some of these obligors include U.S., federal, state and local governments, high credit quality institutions and utilities.

The company is actually the leading provider of financing for energy efficiency projects for the government.

HASI is broken down into three asset classes:

- **Clean Energy** – Projects that deploy cleaner energy sources, such as solar, wind, geothermal, biomass, and natural gas.
- **Energy Efficiency** – Projects typically undertaken by energy services companies that reduce a building's energy usage or cost through the design and installation of improvements to building components. These include (but are not limited to) heating, ventilation, air conditioning systems, lighting, energy controls, roofs, and windows.
- **Sustainable Infrastructure** – Projects such as water or communications infrastructure that reduce energy consumption and make more efficient use of natural resources.

I suspect these last two will get a nice boost in 2014 from Washington, now that Ernest Moniz, the new Secretary of Energy, has made it perfectly clear that his focus will primarily be on energy efficiency...

During his first speech as the new Energy Secretary, Moniz said: "Efficiency is going to be a big focus going forward. I just don't see the solutions to our biggest energy and environmental challenges without a very big demand-side response. That's why it's important to move this way up in our priorities."

Funding will be needed for these projects, and HASI is pretty much the big fish in this pond.

Bottom line: This is great timing for Hannon Armstrong. And I'm personally looking to take a ride on this one.

Here's another interesting thing about HASI: It actually operates as a REIT.

As energy analyst Tom Konrad pointed out, by going public and converting to a REIT structure, HASI is tapping a pool of relatively low-cost capital from small investors.

Over the long term, I suspect HASI will hit all the right buttons with investors looking to invest in clean energy projects, as well as investors looking for some steady income in the energy space.

Although I doubt HASI will be able to deliver those double-digit dividends we've seen from some other juicy REITs out there, I do expect to see a 6%-7% dividend yield in a few more quarters.

All in all, I like HASI as a way to play the continued boom in modern energy integration and energy efficiency.

Pattern Energy Group (NASDAQ: PEGI)

It's only been public for about a month now. And despite its successful (yet somewhat quiet) debut, Pattern Energy Group (NASDAQ: PEGI) seems to be slowly appealing to income-oriented investors looking for a piece of the renewable energy market...

Pattern Energy Group is an independent power company that owns and operates eight wind power projects in Canada, the United States, and Chile. Total owned capacity is just over one gigawatt.

Each wind project the company owns is contracted to sell nearly all of its output on a long-term, fixed-price power purchase agreement. Pattern also has two new projects in development. One is in Chile, a 115-megawatt project expected to start commercial operations in April 2014. The contract for this one runs through 2034. And the second project soon to go online is in Ontario. This one is a 270-megawatt project with a power purchase agreement locked in through 2034.

Overall, the weighted average remaining on contract life is about 19 years.

Management is quite conservative, and risks are minimal, as this is not a turbine manufacturer, but rather a developer operating primarily in wind-friendly regions.

Even with dirt-cheap natural gas, demand for wind — in the right places — remains strong.

Net profit for the first six months of 2013 grew from $6.44 million one year prior to $29.14 million, while revenue rose 62% to $102.54 million. Pattern has about $2 billion in assets and about $1.4 billion in liabilities. And for income-oriented investors, the company expects to offer a yield of approximately 6%.

For the 12 months ending December 31, 2014, management expects to generate $55.4 million for distribution and $217.7 adjusted EBITDA.

All in all, I actually like Pattern based on historical data and management's ability to keep growth steady, but not overly risky. Whether or not that will be enough in today's market is still questionable.

Broader market action and, of course, any potential loss of government support in Canada, the U.S., and/or Chile could chip away at this thing pretty quick. Even though power purchase agreements are already locked in, the market doesn't typically distinguish these types of things when it comes to renewable energy. This isn't necessarily a criticism, but rather a reality that investors should not ignore.

As well, while I love the target dividend of 6.25% dividend, I don't know how much room that leaves for growth...

If you're considering Pattern as a potential investment, I wouldn't expect much in the way of dividend growth in 2014.

Greenbriar Capital Corp. (TSX-V: GRB)

Last year, we closed out a position in Western Wind Energy Corporation (TSX-V: WND) with a 33.3% gain. We actually closed it out because a company called Brookfield Renewable Energy Partners ended up acquiring this very successful wind farm developer.

Now those of you who know me know that I'm not much of a fan of generic wind energy stocks — but I do love a quality power generation play, whether its wind, solar, gas, or coal...

And this is exactly what WND was: a quality power generation play.

We originally picked up WND because it had zero debt, very lucrative power purchase agreements in place with the major utilities, and a management team that is probably one of the best I've ever seen in the energy space.

In fact, this company, which was started with only a few hundred thousand dollars, became a multi-million-dollar operation that grew its share price, on average, 20% each and every year since 2000. Only a top-notch management team can make something like this happen, particularly in the highly competitive and often times uncertain wind energy space.

So when I heard that the former CEO of WND had launched a new venture, I immediately got him on the phone... and I'm glad I did.

His name is Jeff Ciachurski, and he's one of the smartest and most aggressive CEOs I've ever met. Following his departure from WND, he immediately seized his next operation, another power development company that's jumping on a wealth of new solar and wind opportunities.

Now, I know some of you are either unfamiliar with or are simply uninterested in solar and wind plays. But the bottom line is that Ciachurski is one of the only guys I know who consistently makes money in this space. And it is for that reason that I'm bullish on this one.

The company is called Greenbriar Capital Corp. (TSX-V: GRB) (PINK SHEETS: GEBRF), and in the short time since Ciachurski moved from WND to GRB, the company has already announced a 100-MW solar deal in Puerto Rico and an 80-MW wind project in Utah.

When first considering GRB's operations, it looked like just another version of WND — which, quite frankly, would be enough of a reason for me to buy some. My hunch was confirmed last summer after Ciachurski admitted that GRB is, in fact, a continuation of a strategy he had with Western Wind.

But this one ups the ante.

GRB only has a small amount of outstanding shares, about 11 million. And about 6 million are held by insiders. Compare that to Western Wind, a highly successful and profitable stock, that had about 71 million outstanding shares. As Ciachurski noted, with GRB you're not splitting the pie with as many people. I love that!

Long term, assuming this plays out the same way WND played out, this could easily be a $5 stock by the end of 2014.

Investors are always talking about getting in on the ground floor of something big... well, that's exactly what this opportunity is.

U.S. Geothermal (AMEX: HTM)

In the past, I've discussed a geothermal technology known as Enhanced Geothermal Systems (EGS).

EGS is the holy grail for the geothermal industry. It's basically fracking for geothermal. But because you're simply talking about heat with EGS — and not a dedicated spot holding a finite resource — geothermal power plants can be set up practically anywhere.

You can't do that with wind or nuclear.

And the best part is that with EGS, you can produce electricity more cheaply than nearly anything else produced today.

On top of that, this resource is nearly exhaustible. In fact, an MIT report found that accessible geothermal resources in the United States are 130,000 times greater than the country's total annual energy consumption.

We learned this year that the first demonstration EGS projects actually sent juice to the grid. The development on EGS has been slow, but it's also been steady.

One of the earliest companies involved in EGS testing was U.S. Geothermal (AMEX: HTM).

If you're familiar with some of my past recommendations, HTM is a stock that I've played on numerous occasions. Our early coverage resulted in gains well over 200%, and over the years we've issued continued coverage — in both good times and bad.

I did actually jump out of the geothermal space for a bit, but I'm now back in... and once again, it's with U.S. Geothermal.

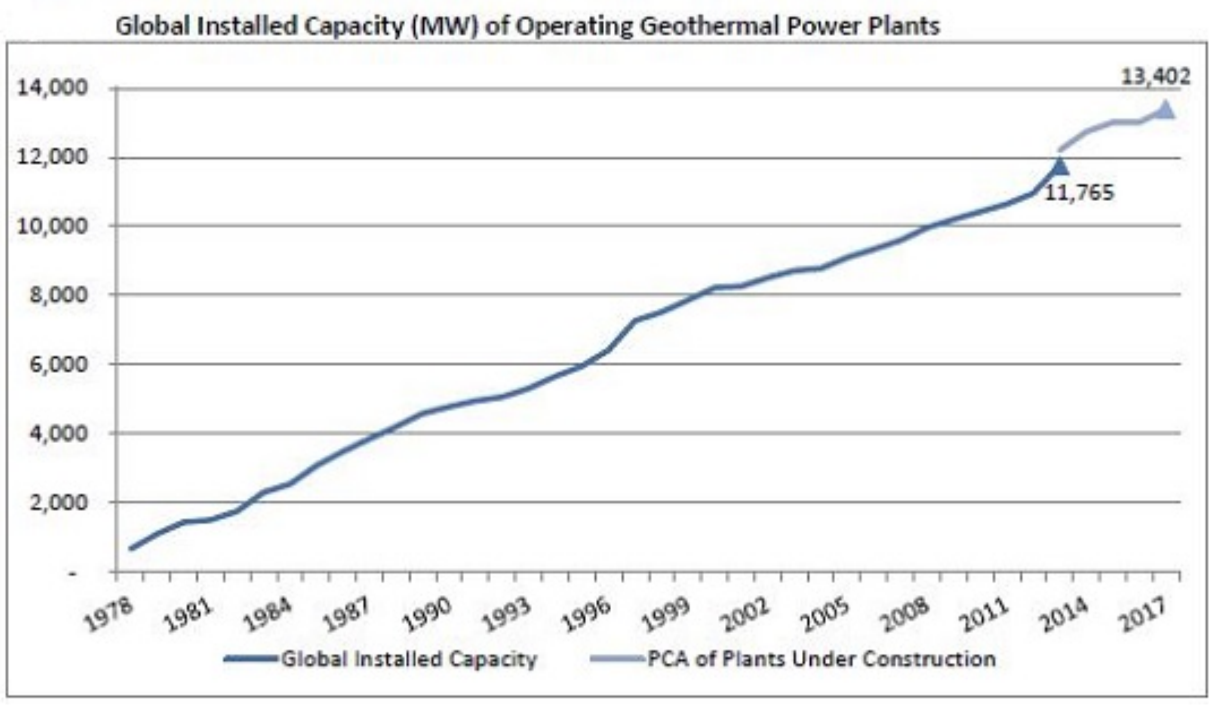
U.S. Geothermal is a geothermal power producer that operates three geothermal power plants in the U.S. and is currently developing a new project in Guatemala.

EBITDA for the first six months of 2013 was $5.18 million, compared to -$2.85 million one year prior. Net income for the first six months was $0.27 million, compared to a net loss of $4.24 million. Cash and cash equivalents for the first six months of 2013 increased $35.37 million, compared to an increase of $1.99 million one year prior.

Full-year 2013 guidance for operating revenues is between $25.9 million and $26.8 million, and EBITDA estimates are between $12.5 million and $13.7 million.

Overall, HTM is a high-risk, long-term play on geothermal in the United States (although the company is active outside the U.S., too). But after years of bouncing around, the stock is finally starting to stabilize, and the company is finally starting to show some success for its many years of hard work.

Bear in mind geothermal is one of the slowest growing sectors in the clean energy space. Take a look:



So don't expect the same kind of meteoric expansion we've witnessed in the solar and wind industries.

When it comes to this space, I think you get the most bang for your geothermal buck in 2014 with U.S. Geothermal.

New Solar IPO

SunEdison (NYSE: SUNE), formerly known as MEME Electronic Materials, announced this year that it would be splitting off its semiconductor business in a new IPO and use the proceeds to fund the construction of solar farms.

The stock soared more than 20% on the news before coming back down to reality, but such an IPO could turn out to be a big deal for solar investors...

The bottom line is that SUNE generates revenue through semiconductor and solar materials and project development. It's the latter that keeps the company in business.

In 2010, about 42% of revenues came from the company's semiconductor segment, and just under 24% came from project development. In 2012, project development boasted about 56% of revenues, while its semiconductor segment's contribution fell to 32%.

Also worth noting is that in 2010, solar materials accounted for about 35% of revenues. That figure fell to less than 12% in 2012.

Earlier this year, SunEdison also bought a solar company called EchoFirst in an effort to expand further into the residential solar market.

This company actually offers combined solar electric and solar thermal leases for consumers. Essentially, this allows the consumer to use solar not just for electricity, but for hot water, too.

This is a pretty big deal, as about 30% to 40% of average utility costs can come from hot water heaters.

We'll continue to follow the development of this IPO going forward.

To a new way of life and a new generation of wealth...

Jeff Siegel

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Jeff is the managing editor of Energy and Capital and contributing analyst for the Energy Investor, an independent investment research service focusing primarily on stocks in the oil & gas, modern energy and infrastructure markets. He has been a featured guest on Fox, CNBC, and Bloomberg Asia, and is the author of the best-selling book, Investing in Renewable Energy: Making Money on Green Chip Stocks. For more on Jeff, go to his editor's page.

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