

## Warren Buffett Is Investing Further in Renewable Energy — Should You?

### Description

If investors weren't convinced yet of the merit in investing in solar and wind power, the fact that Warren Buffett is interested could bring them closer. The **Berkshire Hathaway** (NYSE: BRK-A)(NYSE: BRK-B) CEO and investing guru announced yesterday that the company has committed to spend \$15 billion to build wind and solar power in the U.S. — this is in addition to the \$15 billion already being spent on these projects.

### Berkshire Hathaway Energy

Berkshire Hathaway Energy is a holding company that is 89.8% owned by Berkshire Hathaway. Almost 25% of the energy its businesses generate comes from non-carbon sources such as wind, water, the sun, and geothermal heat. The company has invested \$8 billion in wind energy and \$5 billion in solar energy, and is working on building a solar farm in California that is expected to be one of the world's largest upon completion in 2015.

### What you need to know about solar

Solar power, accounting for a mere 1% of electricity generation in the U.S., is the fastest-growing source of clean energy. The U.S. Energy Department last week guaranteed at least \$2.5 billion in loans for innovative solar projects, and has also launched a program to encourage the installation of more solar panels on rooftops. The push also extends to private companies, as President Obama has implemented more solar-related packages and has called for commitments from the private sector.

The solar industry has seen costs decrease sharply in the last few years. A recent report from the consulting firm McKinsey & Co. discussed the magnitude of this decline in costs and the potential for solar to be a “disruptive” technology as it increases its share in global energy markets.

### Soaring demand for solar

GTM Research reports that demand from U.S. residential consumers has risen sharply over the last few years. Cumulative installations in the U.S. rose 547%, from 1.7 gigawatts in 2009 to an estimated 11 gigawatts by the end of 2013.

Also, many companies have been setting ambitious targets for the usage of solar power. **Walmart**, for example, plans to switch to 100% renewable power by 2020 from approximately 20% currently.

Globally, India, Africa, and Saudi Arabia are among the regions that are aggressively expanding their solar capacity.

### Solar stocks decline from frothy levels

**SolarCity's** (NASDAQ: SCTY) market share of the U.S. residential photovoltaic market has risen to 32%. This is great news, but looking at the financials of the company leaves me less excited. In 2013,

earnings per share was  $-\$0.75$  versus  $-\$0.56$ , and the company's debt levels are high. Furthermore, the stock is trading at over 23 times sales, which is a red flag for me no matter how good a company's prospects. The stock is down 14% year to date.

**Canadian Solar** ([NASDAQ: CSIQ](#)) is another company that will benefit from this transformation in the power industry. This company is more richly valued at 35 times earnings, and is starting to look more interesting. Earlier this year the stock was trading at almost 50 times earnings. The stock has come down from its highs of over \$40 and is down 24% year to date.

### **Diversified companies with exposure to solar**

**Northland Power** ([TSX: NPI](#)) is a well-diversified clean energy company that offers exposure not only to solar power, but also to wind and thermal power. The company estimates that by 2015, 21% of its EBITDA will be from its solar power segment. The stock trades at almost 18 times earnings, and operating margins and ROE are very attractive, at 29% and 20% respectively.

Warren Buffett's announcement that he intends to invest heavily in this space is a vote of confidence that will attract investors. The excitement over this new technology and the potential growth rates of this industry has been evident in the stock price returns in this sector, and recent weakness in these stocks should make investors start to think about increasing their exposure in this space.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

1. NASDAQ:CSIQ (Canadian Solar Inc.)
2. NYSE:BRK.B (Berkshire Hathaway Inc.)
3. NYSE:BRKA (Berkshire Hathaway Inc.)
4. TSX:NPI (Northland Power Inc.)

### **Category**

1. Investing

### **Date**

2025/08/16

### **Date Created**

2014/06/10

### **Author**

karenjennifer

**default watermark**