



Stock Alert: A New Player in the Renewables Industry

Description

If you are familiar with my articles, you may have noticed that I am very interested in the renewable energy industry. Perhaps it goes back to my roots as an ecologist, but I am certain that this form of energy will capture a very large portion of market share within this decade. I have written about [several different renewable energy companies](#) previously, but today I am bringing forth **Pinnacle Renewable Energy** (TSX:PL).

Company background

While the other renewable energy companies I have written about are energy producers, Pinnacle approaches the industry in a different way. This company is a global leader in the production and distribution of wood pellets. These pellets are then used by thermal energy generators. Pinnacle sources its wood from by-products produced by partners in the forestry industry which harvest only from sustainably certified forests.

Pinnacle currently has eight pellet production facilities in Canada and another in the southern United States. These facilities are strategically placed along major rail lines, which allow for efficient transport of its product to shipping facilities along the coasts. These coastal shipping centres also allow for ease of global transport of Pinnacle's wood pellets.

Pinnacle stock has not shown good performance since its February 2018 IPO. The stock opened at \$11.25 and has continued to fall since. At its lowest, the stock fell nearly 70% from the IPO price. So, why is this company intriguing?

The investment thesis

As noted in the open, Pinnacle is a global leader in the production and distribution of industrial wood pellets. [It is estimated](#) that the demand for pellets will more than double from 2017 to 2022. This puts the company in an excellent position to benefit from the shift towards renewable energy. Hawkins Wright, a market intelligence service which specializes in research of the global pulp, paper, and

bioenergy industry, predicts that the growth in demand will continue to grow until 2026.

You can already see some of the increased demand in the company's reported production. From 2015 to 2017, production of wood pellets saw a compound annual growth rate (CAGR) of 9%. This was reflected in the company's revenue as a CAGR of 11% over the same period.

The company is firmly setting itself up for the future. In 2018 and 2019, Pinnacle finalized 12 new long-term contracts. These contracts represent \$6.9 billion in contracted backlog with an average length of nine years. Pinnacle is also planning on expanding via the construction of new production facilities. An example would be the proposed facility in the southeastern United States that has financial backing from The Westervelt Company and Two Rivers Lumber Company.

Foolish takeaway

While this may not be the usual perspective within the renewable energy sector, Pinnacle's role is certainly important. The company provides wood pellets that are used by thermal energy facilities, and the demand for this company's products are only increasing as the penetration of renewable energy increases.

Do not be scared by Pinnacle's stock chart, since its financials have been impressive in the years leading to its IPO. In a growing industry, Pinnacle is primed to lead the way.

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