Excerpt from Red Herring, August 1, 2006
http://www.redherring.com/Article.aspx?a=17797&hed=Clean+Energy+Stocks+Decline&sector=Industries&subsector=Energy

Clean Energy Stocks Decline

New Energy Finance: Q2 stocks down 4.4 percent, but expect growth to pick up soon.

August 1, 2006

New Energy Finance said Wednesday that clean energy stocks were down 4.4 percent in the second quarter and down a further 2.5 percent in July, representing a slowdown in the wake of 25.1 percent growth in the first quarter.

The London-based research firm co-publishes the WilderHill New Energy Global Innovation Index (NEX), which tracks global clean energy stocks, along with two other partners.

The index surged a whopping 43.8 percent from the beginning of the year to May 10, growing to a peak of $310.96 from $216.25. It then fell 24.7 percent to a low of $234.19 on June 14. At the end of July it was at $252.22.

“We were not particularly surprised to see the correction in the NEX in 2Q 2006,” New Energy Finance CEO Michael Liebreich said. “Our clients had been looking at the valuations of some solar and fuel cell stocks with some trepidation before it occurred. I don’t want to say I’m happy about the correction, because you’re never happy when investors lose money, but we’re not surprised.”

‘If it takes six months or a year longer to IPO, so be it.’
-Michael Liebreich,
New Energy Finance

After all, the index grew almost 44 percent in a little more than four months, compared with growth of about 29 percent annually in the last three years, he said.

“I would be happy to see a continuation of 29 percent growth,” he said. “At 44 percent, the market seems to be overheating.”

Reasons for Drop

There were four reasons for the 24.7 percent drop between May 11 and June 15, Mr. Liebreich said.

First of all, the general market declined, with the Nasdaq falling 7 percent in that period. Secondly, clean energy investors were motivated to take profits after 18 months of strong performance in the sector.

Finally, there were concerns that some companies, especially in the solar sector, were overvalued, as well as the crash in carbon prices in Europe. Carbon emissions prices have fallen 50 percent this week, and could fall further, analysts say.

The crash affects companies that buy or trade carbon credits, as well as wind and solar companies that can boost the value of projects by taking advantage of carbon credits. Also, the crash just highlights the volatility of the cleantech market, and makes some investors more likely to sell, Mr. Liebreich said.

As a whole, wind and bioenergy were the only categories that had rising stock prices, while solar was one of the worst-performing categories, he said. Solar stocks fell 11.8 percent overall, ending "an extraordinary two-year run" of growth, he said.

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Mr. Liebreich said he also has no long-term concerns for the clean-energy sector.

"Investors are being more cautious about which IPOs they back, and I don't see anything negative in that," he said. "I think IPOs should be scrutinized, and if it takes six months or a year longer to IPO, so be it. Even the carbon crash is a result of governments being overgenerous with emissions allowances, not because of any structural problems with the carbon-trading model."

By the end of the year, Mr. Liebreich said he expects the clean-energy stocks will begin growing again. "Overall, the clean energy industry is in good health," he said. "There are a few supply bottlenecks, but we are seeing strong prospects for long-term growth and value creation," he said.