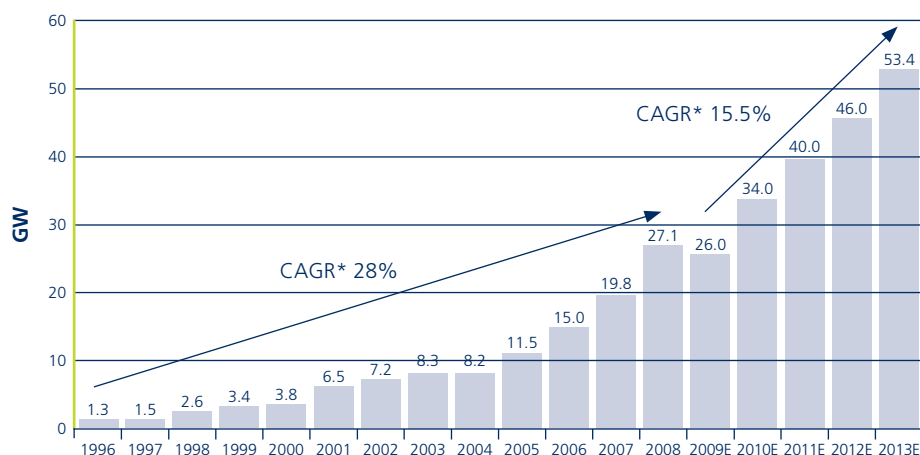




Knowing how to play the wind power sector

Wind farm operators look attractive

GLOBAL NEW INSTALLED WIND POWER CAPACITY



Source: SAM estimates 2009-2013

* Compound Annual Growth Rate

The industry has come a long way since wind power technology first emerged in the late 1970s. Average annual growth rates for new installed capacity have exceeded 30% for the past four years, leading to total installed capacity of close to 121GW in 2008, or approx. 1% of global electricity production.

It was not until the mid-1990s, however, that the industry started to grow substantially. The growth in cumulative installed capacity, largely supported by governmental regulation in an effort to address issues such as climate change, has been nothing short of remarkable.

When investing in the wind energy sector, we would argue that it is of paramount importance for investors to consider the dynamics of the wind value chain, and thus the relative attractiveness of its different segments: component manufacturers, wind turbine manufacturers (WTMs), and wind farm builders & operators. Historically, WTMs have captured the lion's share of investors' attention. Going forward, we believe the value-added potential will gradually shift downstream.

A slow decline in growth rates for new installed capacity, together with turbine price deflation due to over-capacity in the next three years, will make it difficult for WTMs to match historical rates of earnings growth (see chart).

As a result, we have increasingly focused our attention on wind farm operators that provide steady, recurring revenues, which ultimately lead to predictable cash flows. Within the wind energy sector, we prefer companies with a geographically diversified portfolio of high-quality assets, thus mitigating operational and regulatory risks.

"Understanding the dynamics of an industry's value chain is critical. In wind power, we see such dynamics favoring wind farm operators in the long run."



Christophe Churet
Analyst

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