Renewable player overtakes ExxonMobil in market value

October 8 2020, by Juliette Michel

After being bumped from the prestigious Dow Jones index, Exxon Mobil has now been overtaken in stock market value by renewable player NextEra Energy

After decades of embracing fossil fuels, Wall Street appears to be shifting its allegiance to renewable energy, a sharp turn apparent in the contrasting fortunes of NextEra Energy and Exxon Mobil.

Florida-based NextEra, a big player in wind and solar energy, has overtaken the global oil giant as the most valuable US energy company by market value.

NextEra's market capitalization has surged to $145 billion compared with ExxonMobil's $142 billion, another emblem of the Texas giant's diminished status after it was bumped this year from the prestigious Dow Jones index after more than 90 years.

The ascendance of NextEra and other renewable-oriented companies is not merely a passing trend, said Peter McNally, an energy expert at research firm Third Bridge.

"I've seen fads in alternative energy come and go over the last decade, and I'm sure that people would debate the multiple investors are paying for the earnings generated," he said in an interview.

"They're in the right place at the right time."

Tesla-like dynamic?

Founded in 1925 in Florida where it continues to supply power to five million households, NextEra has invested in solar and wind energy since the 1990s.

Those investments are now paying off with technological leaps in renewable energy.

"Alternative power is now getting competitive with traditional forms of electricity, coal and natural gas fired generation," McNally said.

"If some of those investments had been made 10 years ago, they would likely have had a different outcome, because the cost of generating power from wind and solar has gotten a lot cheaper."

NextEra is the biggest producer of wind energy in North America and among the biggest solar producers in the United States.

Equally important, investors have become much more focused on climate change and increasingly sympathetic to companies that embrace the idea that renewables will become a bigger part of the energy equation.

A similar sentiment also made Tesla the most valuable auto company in terms of market value, outstripping General Motors and Ford, even though the traditional automakers sell many more cars.

In 2019, NextEra reported $3.8 billion in profits on $19 billion in revenues. During the same period, ExxonMobil garnered $14.3 billion in profits on revenues of $265 billion.

ExxonMobil's decline coincides with a lackluster outlook for oil prices in the wake of the coronavirus pandemic and the ensuing uncertainty over demand.

These dynamics have made ExxonMobil's strategic decisions of recent years look especially bad.

The oil giant invested almost $80 billion between 2017 and 2019, including about a third on US shale investments expected to boost production by one million barrels per day by 2024. But those targets appear destined to lapse.

With the crash in oil prices, ExxonMobil has slashed its capital budget this year.

By contrast, NextEra has benefited from regulated electricity prices and stable use. About two-thirds of its revenues are tied to supplying electricity.

Between this consistent source of revenues and its expertise in wind, solar and energy storage, NextEra is "very well positioned for this transition to renewable generation and emission free type world," said Andrew Bischof, analyst at Morningstar.

"Investors definitely appreciate that type of carbon profile during this transition," he added.

© 2020 AFP

Citation: Renewable player overtakes ExxonMobil in market value (2020, October 8) retrieved 10 April 2024 from https://techxplore.com/news/2020-10-renewable-player-exxonmobil.html

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.