BEYOND OIL

From Big Oil to Big Green: the world's first clean energy giant

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Over the past few years, hundreds of renewable energy companies have sprung into existence, all looking to play a pivotal role in the green energy transition.

But Ørsted is different.

For a long time, Ørsted was barely involved in renewables at all. But, in just one decade, it evolved from being a run-of-the-mill fossil fuel company into a renewable energy giant. Ørsted's journey is proof that the green energy transition is in full swing – and that clean energy is well on its way to unseating fossil fuels.

Established in 1972, the company was originally called Danish Oil and Natural Gas Energy.

But in 2009, the company saw which way the wind was blowing and committed to a radical shift towards renewable energy.

It was a daring move at the time. Remember, it was making the leap into renewables over a decade before BP, Shell and other oil majors even began considering the idea. But, fortunately, DONG Energy stuck to its guns: in 2017, it sold off its upstream oil and gas business and rebranded as Ørsted.

The gamble paid off. Ørsted has been profitable for years, and it has remained so even throughout the Covid-19 pandemic.

Profits grew by 4% in FY2020, compared to 2019. The company recently reported a net profit of DKK1.6 billion (€215 million) in Q1 2021. Meanwhile, oil and gas companies are in the doldrums, with the industry set to see its revenue fall by $1 trillion this year, according to research firm Rystad Energy.

Today, Ørsted is a global leader in offshore wind energy, operating nearly 24% of offshore wind production outside of China. Currently, its offshore wind operations generate nearly 7 gigawatts (GW) of power, with an additional 8GW still in development. By 2030, Ørsted aims to up its renewables capacity to 30GW – an ambitious target, equivalent to nearly one-third of the UK's entire energy consumption.

In 2020, renewables made up over 85% of all power generated by the former oil company. In terms of energy generation and company operations, the company aims to shutter its final coal plant by 2023 and become carbon neutral by 2025.

So, Ørsted is an established, profitable company with a bright future– and other investors clearly agree. Ørsted's market capitalisation (the number of outstanding shares multiplied by the share price) has seen phenomenal growth. Over the past three years (to end of April this year), it's risen by over 140%, and has grown by over 50% since the start of 2020.

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Going forward, Ørsted is in a prime position to ride the wave of renewable energy demand.

The International Renewable Energy Agency forecasts that by 2030, global offshore wind capacity will have increased nearly ten-fold to 228 GW, and to near 1000 GW by 2050.

Governments across the world are looking to "build back better" from the pandemic and shift towards renewables. Prime Minister Boris Johnson has vowed to make the UK the "Saudi Arabia of wind" and both the United States and the European Union are pursuing their own versions of a "Green New Deal", which will see trillions of dollars flow into the sector.

Germany, the UK, Japan and the United States are due to build another 27GW of offshore wind power within the next few years, providing plenty of opportunities for Ørsted to secure new business.

It's worth bearing in mind that in the largest of these countries, the United States, offshore wind is a relatively nascent market. And after acquiring Deepwater Wind in 2018, Ørsted now has complete control over all offshore wind operations in the United States. Of course, as the US offshore wind capacity expands, other companies will enter the fray. As a number of well-capitalised oil and gas companies begin to move into the renewables space, Ørsted will likely face growing competition. However, fortunately Ørsted has already secured the first-mover advantage in one of the largest markets in the world.

But Ørsted isn't just content to switch away from fossil fuels and into offshore wind – no mean feat in of itself. It's also investing in new and innovative areas of renewable energy, such as hydrogen and battery storage.

When stored in fuel cells, hydrogen can be burnt to produce power without giving off any greenhouse gasses. Today, around 95% of all hydrogen is produced as a by-product of hydrocarbon production. However, excess wind power can used to power electrolysis, the process where water is broken down into hydrogen and oxygen – essentially producing clean hydrogen. That's why Ørsted is planning to build one of the world's largest renewable hydrogen plants, powered by its offshore wind farms, in order to supply swathes of western Europe.

The company already has two operational battery energy storage systems (BESS) in the UK, which play a vital role in allowing renewable energy to be supplied to the country's electricity grid. Of course, as with any company, Ørsted faces a number of headwinds.

Over the last few months, Ørsted's share price retreated from the all-time highs it reached last year. Partly, this dip was driven by a broader sell-off in renewable energy shares at the start of the year, but also due to recent news concerning an issue at one of the company's largest wind farms.

In its Q1 2021 results, the company notified shareholders that undersea cables had been damaged by friction with rocks on the seafloor at up to ten sites, costing around £350 million to repair. Although I believe that this is just a temporary blip for a company with numerous established operations, it's worth being aware of.

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Whether you're new to clean energy investing, or whether you're a seasoned veteran, I believe that this stock is worth considering for any green energy transition portfolio.

To be clear, this is not a new recommendation and we will not be including it in the *Exponential Energy Fortunes* portfolio, or providing updates on it. Rather, this report is an idea of a company which will benefit from one particular trend, and it is provided for interest and research purposes only.

Until next time,

James Allen
Editor, *Exponential Energy Fortunes*