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THE VALUE LINE®

Climate Change Investing Service



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Welcome to the inaugural issue of *The Value Line Climate Change Investing Service*. This publication, designed for the climate-conscious, profit-oriented investor, seeks to provide key climate news alongside a managed portfolio of twenty stocks, chosen by our analysts, which stand to benefit from responses to climate change. Selections are vetted based not only on time-tested financial measures, but also the potential impact of climate change and measures taken to combat it on their business. Our selections fall into two main groups: businesses that are focused on providing environmental solutions, and those that are likely to thrive in a changing climate. Every issue features new updates to our portfolio.

In order to help put our selections into context, subscribers will also receive concise reports covering pertinent scientific and economic developments, along with analysis of how these developments could impact their investments.

CLIMATE CHANGE AND THE BIDEN ADMINISTRATION

By Nathaniel Eakman

Following a contentious election, Joe Biden assumed the presidency on January 20th, bringing with him the most aggressive climate agenda in the history of the office. In this, his contrast with the outgoing President Trump could not be sharper. It's obvious that big changes are coming to Washington, and to the national business community, especially in the area of climate policy, but how exactly those changes will play out in the months ahead is somewhat less clear — as is how much of his ambitious climate plan the President will actually be able to implement. As if to underscore the challenges, and increasing awareness of, the climate realities, a widespread winter storm devastated Texas and neighboring areas of the Southwest with snow and unusually cold temperatures. The effects included electrical blackouts and shortages of fuel, in turn resulting in multiple fatalities. Rumors are that the electrical grid serving the Lone Star State was within perhaps minutes of a catastrophic failure. Belying claims that use of wind turbines for power was partly at fault, much colder states than Texas rely heavily on the choppers for their power. While most electric service was restored after some days, a lingering effect was widespread unavailability of drinking water, as main service pipes froze and purification facilities were down as a result of the blackouts. Thus the nation saw that this essential commodity is affected by climate change in many ways.

With the ouster of two Republican incumbents in Georgia's January Senate runoffs, Mr. Biden's centerpiece climate proposal — which calls for \$1.7 trillion in federal funds over the next decade — remains on the table. Although he lacks the 60-vote threshold needed to pass such legislation outright, it may be possible to implement much of the President's agenda through a process called budget reconciliation, which requires only a simple majority. However, Democrats' razor-thin margin of control in the upper chamber grants an inordinate amount of influence to party moderates, who may be resistant to aggressive climate action. Regardless, any serious legislative push on climate issues will likely be delayed as other matters, such as the promises of further coronavirus relief, consume both the Senate's time and the President's political capital.

Even without the Senate, however, there is still a great deal the Biden administration can achieve on climate change. On his first day in office, President Biden began the process of rejoining the Paris Climate Agreement. He rescinded construction permits for the controversial Keystone XL oil pipeline, and directed federal agencies to review and reverse many of his predecessor's environmental policies. In another slew of orders, he established several new offices and positions, such as the White House Office of Domestic Climate Policy, the Special Presidential Envoy for Climate, and the National Climate Task Force, aimed at addressing climate issues both domestically and abroad. The White House also restricted permitting for oil and gas projects on federal lands, and set targets for reducing emissions and conserving environmental resources.

In addition to new regulations, infrastructure improvements are already playing a key part in the Biden climate response, with many of his orders being focused on economic revitalization and the creation of jobs in the clean energy sector. This represents a rare area of potential agreement with the President's conservative opponents. Although many conservatives oppose rapid movement away from fossil fuels, they do support expanding the production of wind and solar power, according to Pew Research. Another potential winner is green transportation — this is, after all, Joe “Amtrak” Biden, who spent his entire Senate career commuting to Washington by train. Indeed, the President has already directed federal agencies to prioritize the acquisition of American-made zero-emission vehicles going forward. Using budget reconciliation measures, the strategic direction of current executive resources, and partnerships with state and local governments, the Biden administration seems well-poised to roll out an ambitious climate agenda. For investors, this has vast implications for a host of industries and sectors, including energy, automotive, and more, both domestically and abroad.

On the following pages, you'll find Value Line's Climate Change Investing Portfolio. In addition to our 20 selections, chosen by specialized analysts within the Value Line Research Department, we provide in-depth commentary and analysis explaining our underlying reasoning. We will also regularly highlight specific stocks that merit special attention by investors seeking to build and maintain a climate-conscious portfolio. As this is an actively managed portfolio, we will be rather aggressive when it comes to making trades; if individual components no longer merit inclusion, such as if a company experiences operational problems or we think that stock has become overpriced, we will recommend that the position be liquidated and the resulting funds allocated to our new selection. In order to receive updates in the timeliest possible fashion, we encourage all subscribers to provide their email addresses.

For subscribers interested in jumping right in, we suggest investing an equal-dollar amount in each of the 20 stocks listed in the portfolio table on the following page. Should individual components come to make up an outsized or undersized position within the overall group, we will discuss rebalancing as the need arises.

THE VALUE LINE CLIMATE CHANGE INVESTING PORTFOLIO

Company	Ticker	Our Rec.	Industry	Market Cap (Mil. \$)	Stock Price	Div'd Yield	Current P/E	Inception Date
Beyond Meat	BYND	Buy	Food Processing	9,522.28	134.10	0.00	929.93	3/4/2021
California Water	CWT	Buy	Water Utility	2,783.07	53.50	1.65	28.76	3/4/2021
Conagra Brands	CAG	Buy	Food Processing	17,217.52	34.73	3.21	14.04	3/4/2021
Ecolab Inc.	ECL	Buy	Chemical (Specialty)	61,710.36	203.87	0.89	44.23	3/4/2021
Edgewell Personal Care	EPC	Buy	Household Products	1,709.66	30.23	1.91	9.57	3/4/2021
Emerson Electric	EMR	Buy	Electrical Equipment	53,364.21	88.05	2.27	24.95	3/4/2021
Essential Utilities	WTRG	Buy	Water Utility	10,814.00	41.75	2.36	34.02	3/4/2021
First Solar, Inc.	FSLR	Buy	Power	9,328.98	75.12	0.00	23.20	3/4/2021
Generac Holdings	GNRC	Buy	Power	23,236.83	302.21	0.00	40.65	3/4/2021
Kellogg	K	Buy	Food Processing	20,145.02	57.83	3.92	14.12	3/4/2021
Lowe's Cos.	LOW	Buy	Retail Building Supply	122,057.10	152.57	1.48	17.88	3/4/2021
Mueller Water Prod.	MWA	Buy	Machinery	2,086.61	12.72	1.67	21.82	3/4/2021
Netflix, Inc.	NFLX	Buy	Entertainment	244,493.80	516.22	0.00	62.43	3/4/2021
NRG Energy	NRG	Buy	Power	9,380.13	38.43	3.38	11.49	3/4/2021
Ormat Technologies	ORA	Buy	Power	5,309.13	77.42	0.42	49.24	3/4/2021
Owens Corning	OC	Buy	Building Materials	8,986.68	77.25	1.25	16.05	3/4/2021
Pentair plc	PNR	Buy	Diversified	9,506.67	56.24	1.40	22.90	3/4/2021
Republic Services	RSG	Buy	Environmental	31,750.70	92.40	1.95	24.49	3/4/2021
Tesla Inc.	TSLA	Buy	Automotive	703,435.00	613.51	0.00	291.61	3/4/2021
Waste Management	WM	Buy	Environmental	47,274.80	115.94	2.06	25.90	3/4/2021

PORTFOLIO HIGHLIGHTS

Going forward, this section will be filled with pertinent details pertaining to the Value Line Climate Change Investing Portfolio. We will, of course, discuss performance, changes to the portfolio (buys and sells), and provide updates on current holdings, as well as offer straightforward and concise investment recommendations. However, for the inaugural issue, we think it best to include brief write-ups in regard to why these specific 20 stocks were chosen, and how each will benefit from fighting climate change and/or from rising temperatures. We have grouped the portfolio components into the following more-targeted groups.

Power

Companies involved in the generation and distribution of electricity without the burning of fossil fuels are, not surprisingly, well represented in the portfolio. **First Solar** manufactures solar panel components, while both **Ormat Technologies** and **NRG Energy** generate energy from “green” sources. More specifically, the former is engaged in geothermal activities (capturing energy from the internal heat of the earth), while the latter has a diverse set of power assets. Although the bulk of its energy presently comes from natural gas, NRG Energy is the largest domestic generator of electricity from non-oil-based means, including solar and wind. Combatting climate change will be a massive endeavor, and the ability to generate electricity from various methods will certainly be a big part of any solution. Going forward, we expect healthy demand for these companies’ offerings, and business expansion opportunities ought to be plentiful.

A less obvious selection is **Generac Holdings**. It designs and manufactures a wide range of generators and other engine-powered products for residential, light commercial, industrial, and construction markets. Climate change has, over the past several years, led to stronger and more frequent natural disasters, including a number of powerful hurricanes that have inflicted unquantifiable damage to large portions of the U.S. and abroad. In addition to the loss of life and property, the extreme weather tends to cause massive power failures (as seen in Texas this winter). Warmer weather also puts a strain on electricity infrastructure, which leads to brown outs. All told, in order to keep the lights on, home and business owners continue to install backup power generators, and Generac should continue to experience impressive sales growth over the next several years.

Installing a generator is just one example of preparing for harsher weather and rising temperatures. This trend should also benefit our selections **Lowe’s** and **Owens Corning**. Lowe’s (like its rival Home Depot) owns roughly 2,000 hardware and home improvement superstores. Owens is one of the largest manufacturers of insulation, which protects against cold and heat. We expect all three companies to continue to do well.

Water

Water is of course an essential resource. Demand from the industrial, agricultural and residential markets is expanding and the supply of potable water is shrinking. In addition, the unquenching thirst will only surge as temperatures rise. The likelihood of the U.S. population increasing over time is another favorable factor for companies responsible for water distribution. Our selections in this space are **California Water** and **Essential Utilities**. California Water, as the name implies, provides regulated and nonregulated water service in 100 communities in the Golden State, which has consistently been plagued by drought and fires. It also operates in Washington, New Mexico, and Hawaii. Essential, which was formerly known as Aqua America, provides water service in eight states, including Texas, Pennsylvania, and Ohio. Over the years ahead, we project that

both companies will benefit from healthy demand for their services, favorable rate cases, and expansion opportunities. The water utility industry is heavily fragmented, so acquisitions are likely.

The costs to maintain water utility operations are also building. Like other domestic infrastructures, the nation's water system has suffered from a long period of underfunding. Water main breaks are a staple of urban traffic reports along with accidents and breakdowns. Many systems are over a hundred years old and require substantial upgrades, if not complete reconstruction. Thus, there are significant opportunities for companies that manufacture and sell piping, valves, filtration systems, and metering systems. In particular, we like **Mueller Water** and **Pentair plc**.

On the other side of the water equation is **Ecolab**. It is one of the largest developers and marketers of chemicals for cleaning, pest elimination, and maintenance applications. The company is presently working on sanitation and sanitization procedures that use far less water than current methods.

Meat Alternatives

According to various studies, one of the leading causes of global warming and elevated greenhouse gases is methane produced from beef cattle and other livestock. In addition, it requires far less resources to make grain calories vs. meat calories. **Beyond Meat** designs and manufactures plant-based meat alternative products, and its flagship offering is *The Beyond Burger*. The company's goal has been to create plant-based foods that appeal to traditional meat-eating consumers who are concerned with human health, climate change, resource conservation, and animal welfare. Beyond has clearly succeeded and the acceptance of its products should only continue to grow over the years ahead. Other corporations are also participating in this market, including major food processors **Conagra Brands** and **Kellogg**. The former owns the brand Gardein, while Kellogg owns several meat-free protein product lines. Presently, these operations account for only a small percentage of total sales, but they are growing at significant rates.

Waste Opportunities

An inevitable side effect of food is waste. However, that refuse can lead to prosperity. **Emerson Electric**, the large electrical equipment outfit already manufactures food-waste disposals. It is also working on related recycling solutions. **Republic Services** and **Waste Management**, two of the largest operators of sanitation services and landfills, are also involved in turning garbage into something useful. In fact, trash presents some environmentally friendly opportunities. Both companies are working on converting the gasses that emit from landfills into useable energy.

Communications and other Technologies

COVID-19 has shown us what life is like when most of our time is spent at home. Rising temperatures, if not to the same extent, may cause us to spend more time indoors. This would benefit **Netflix**, whose video entertainment streaming service is available to all those with an internet connection and hopefully an air conditioner. When we do go outside, sunscreen may be needed, and **Edgewell Personal Care** is one of the world's largest manufacturers.

Tesla Inc. has maintained a meaningful lead in both electric vehicles and battery technology. While it would seem any car company can make an electric runabout, such giants as Volkswagen AG have not kept pace with the vehicle software and battery reliability needed to surpass the Elon Musk venture. Tesla has kept its production schedules, and although its quotation figures on many years of earnings growth, this segment leader seems poised to meet those expectations.



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