



Finding Equilibrium on the Energy Transition journey

The Investment Opportunity in Global Energy & Energy Transition Markets

Yashica Reddy, Investment Director Thematic Equities

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Today's agenda

- 01 Why has the energy sector been out of favour?
- 02 The energy system - state of play, pace of change and investment
- 03 Conventional and renewable energy market dynamics and valuations



Global Energy Sector

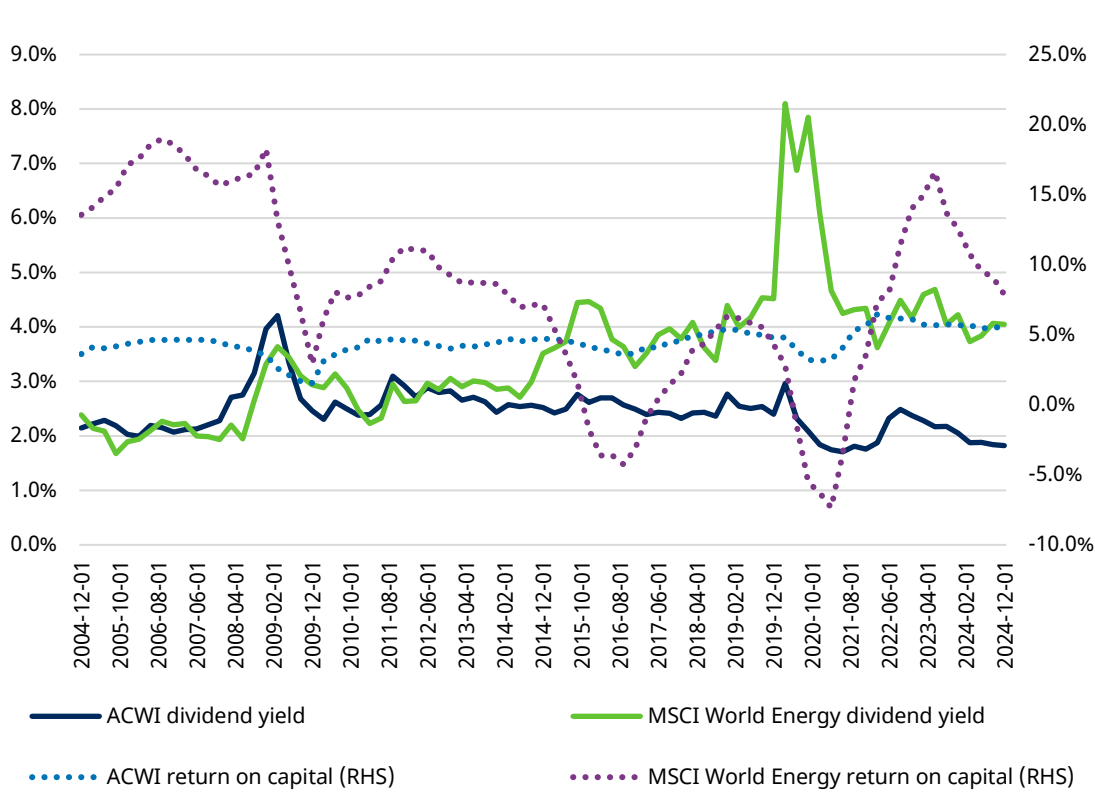
Percentage weight of energy in broad market back to below end of 2000 levels

Weight of energy in MSCI World Index (%)



Percentage weight of energy in broad market back to below end of 2000 levels

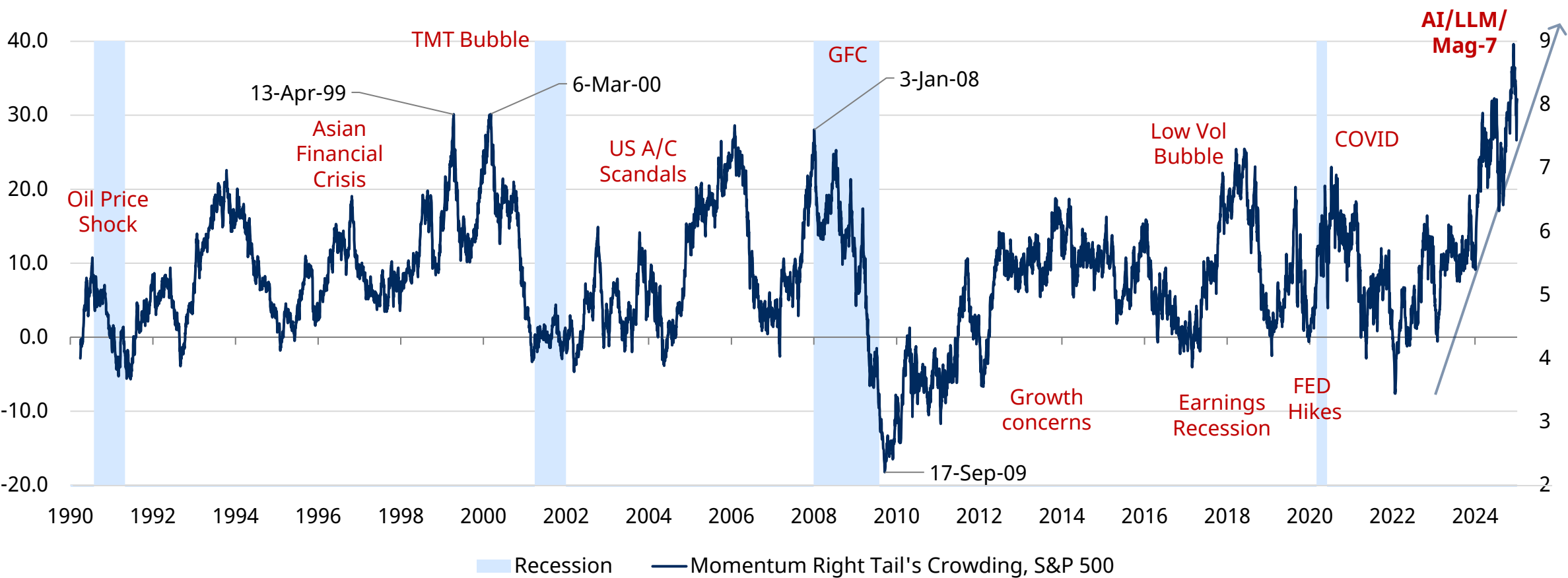
ACWI and World Energy return on capital & dividend yields



Source: Bloomberg, January 2025.

Market concentration is at unprecedented levels

Energy/energy transition equities provide diversification

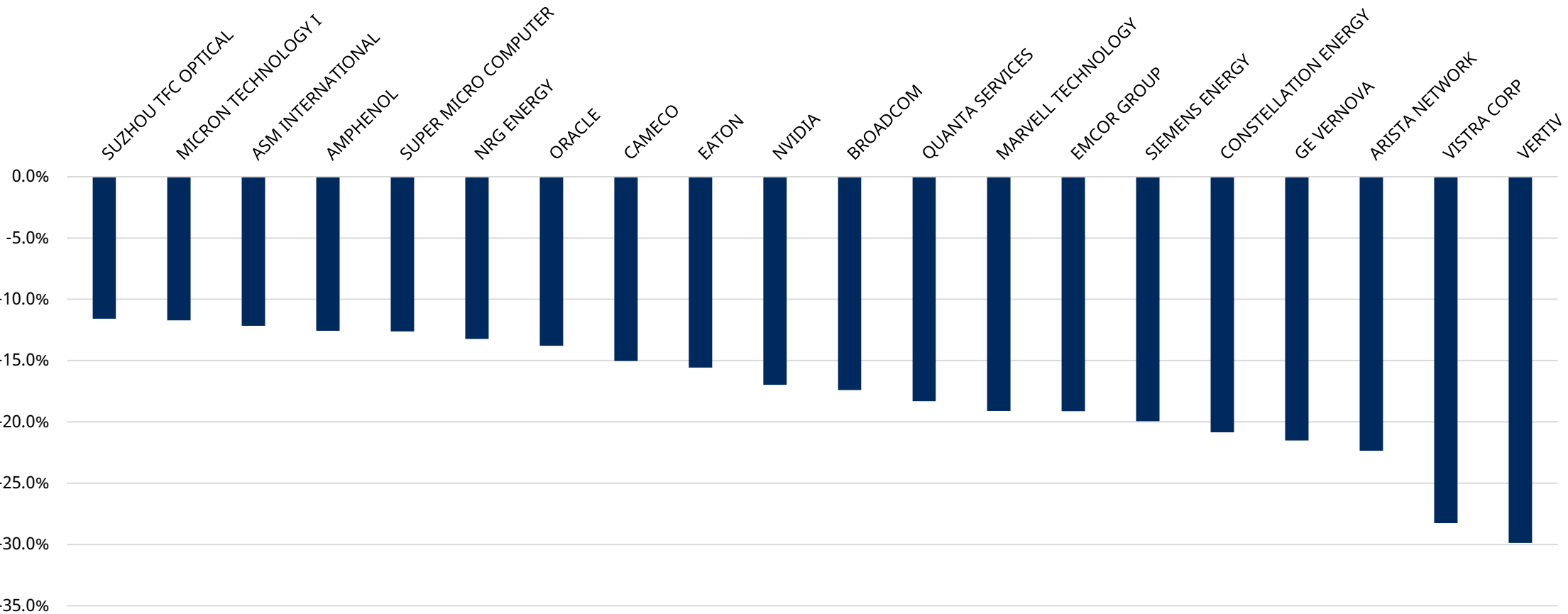


Source: J.P. Morgan US Equity Strategy and Quantitative Research. As at 31st December 2024. Past performance is not a guide to future performance and may not be repeated

Significant volatility has entered the technology sector

Whereas energy/energy transition volatility has become much more subdued

MSCI ACWI's weakest performers – 27/01/2025:

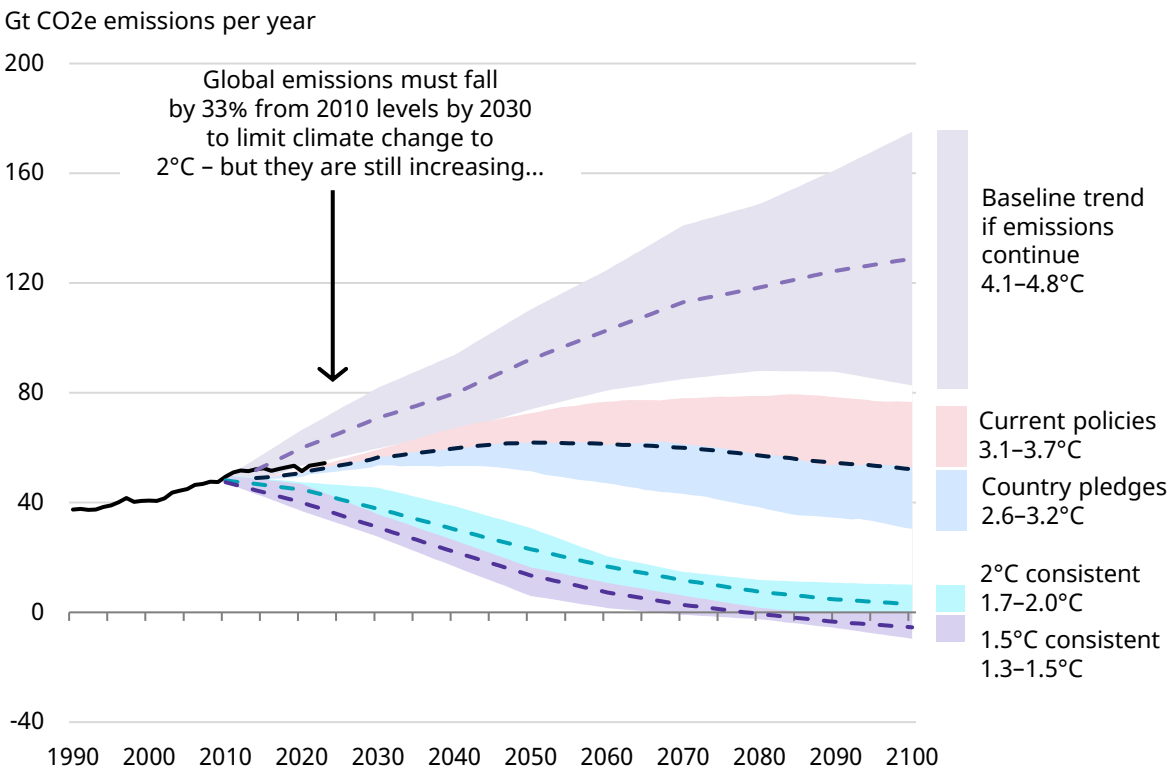


Source: Bloomberg – 28 January 2025

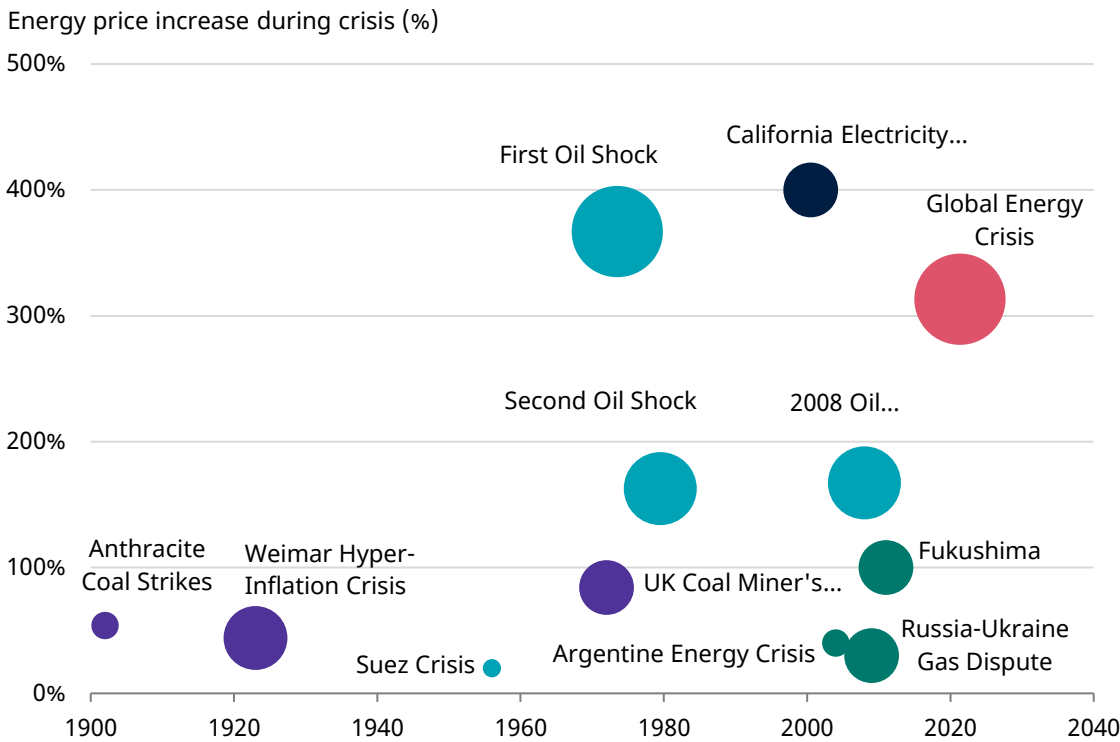
The global energy system is unsustainable in its current state

We must still find a way to produce more energy in a more sustainable way

Global greenhouse emissions and warming scenarios



History of energy crises by type, severity and scope

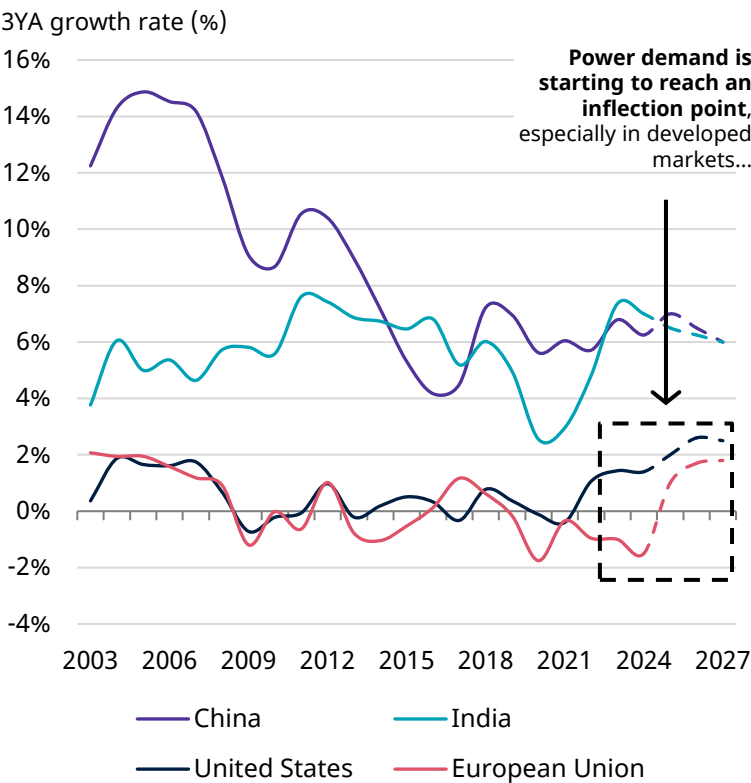


¹The emissions gap represents the difference between the emissions countries have pledged to reduce and the emissions that need to be reduced to limit global temperature increases to below 1.5°C or 2°C.
Source: Climate Action Tracker, UNEP, Climate Change 2014: Mitigation of Climate Change, IPCC Working Group III, Schroders – 31 December 2024.

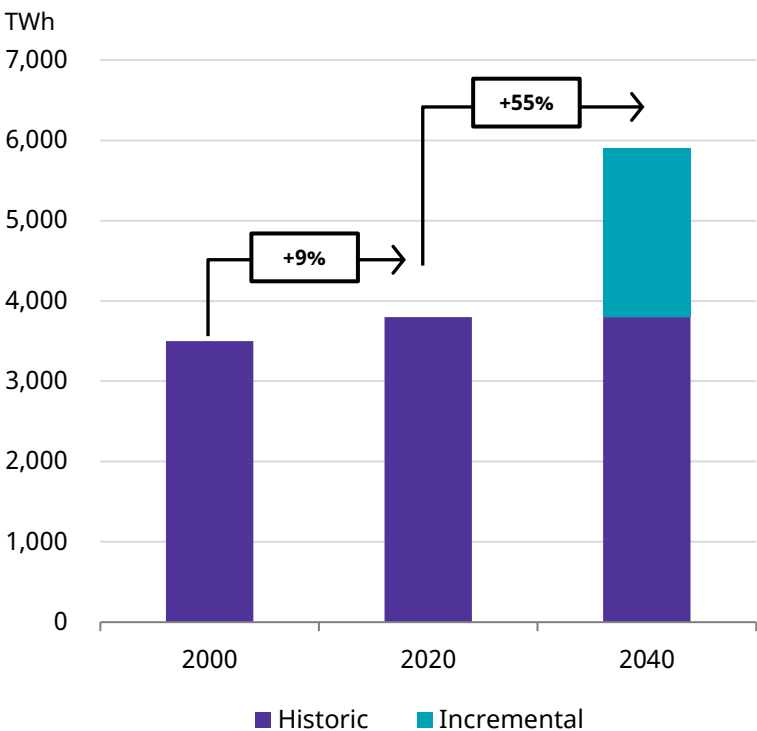
Electricity demand growth continues to look very robust

Developed market load growth is starting to inflect and forecast growth is very strong

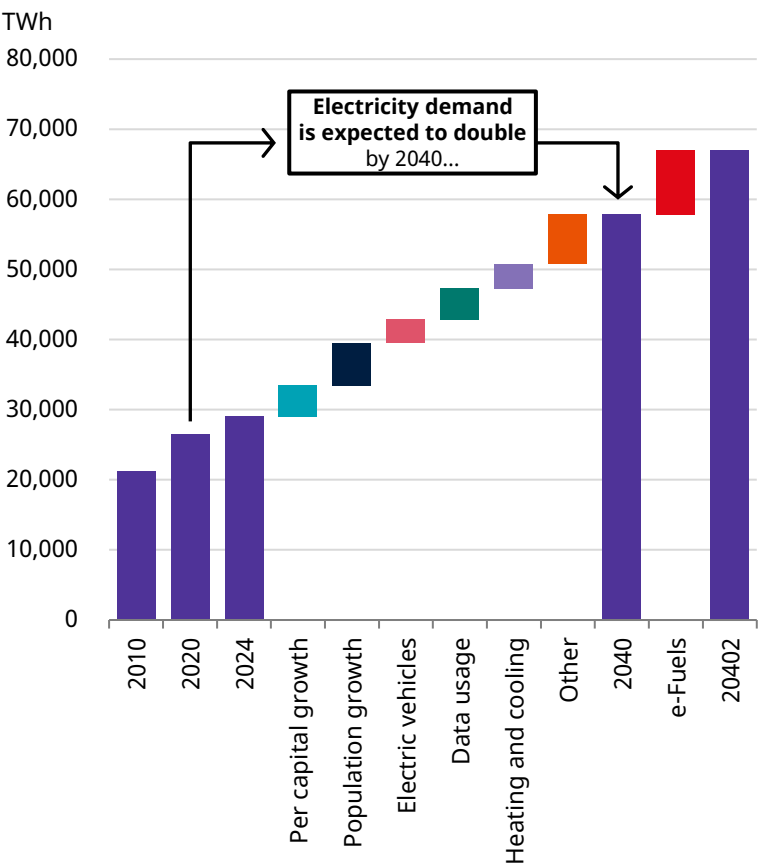
Growth rates of electricity demand in selected regions



Historic and forecast US electricity demand



Forecast global electricity demand by growth driver



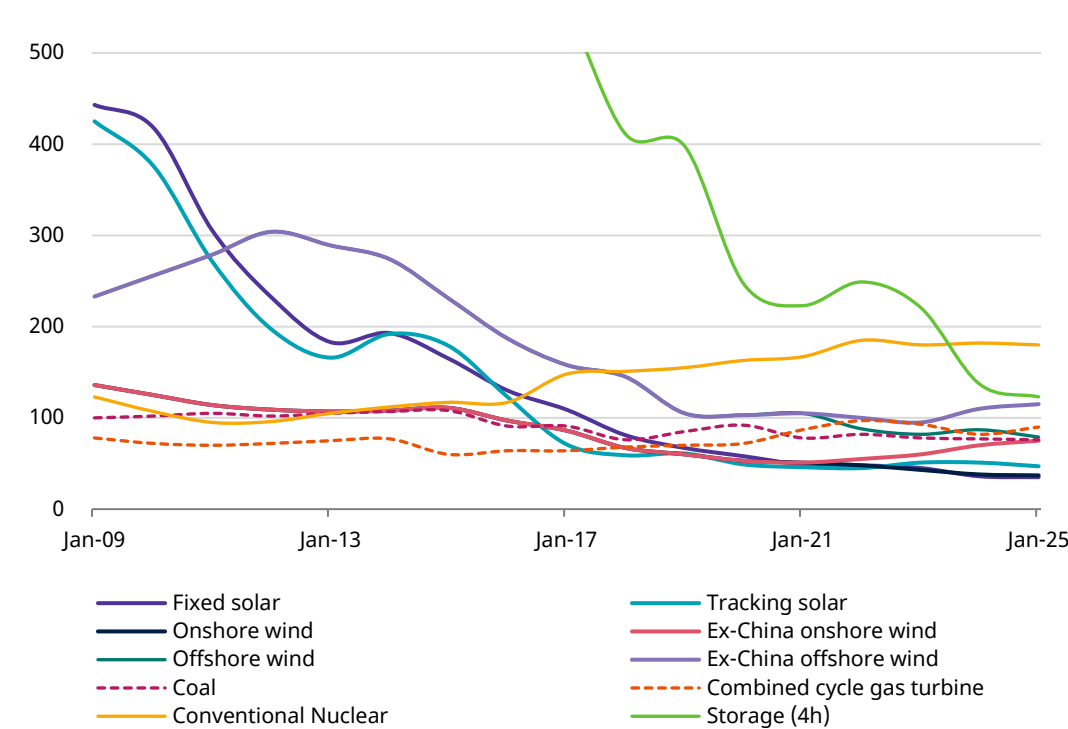
Source: Schrodgers, IEA, Our World in Data, BNEF, EIA, IHS – 28 February 2025.

Renewables remain an attractive choice to meet new demand

Renewables continue to be both cost effective and quick deploy around the world

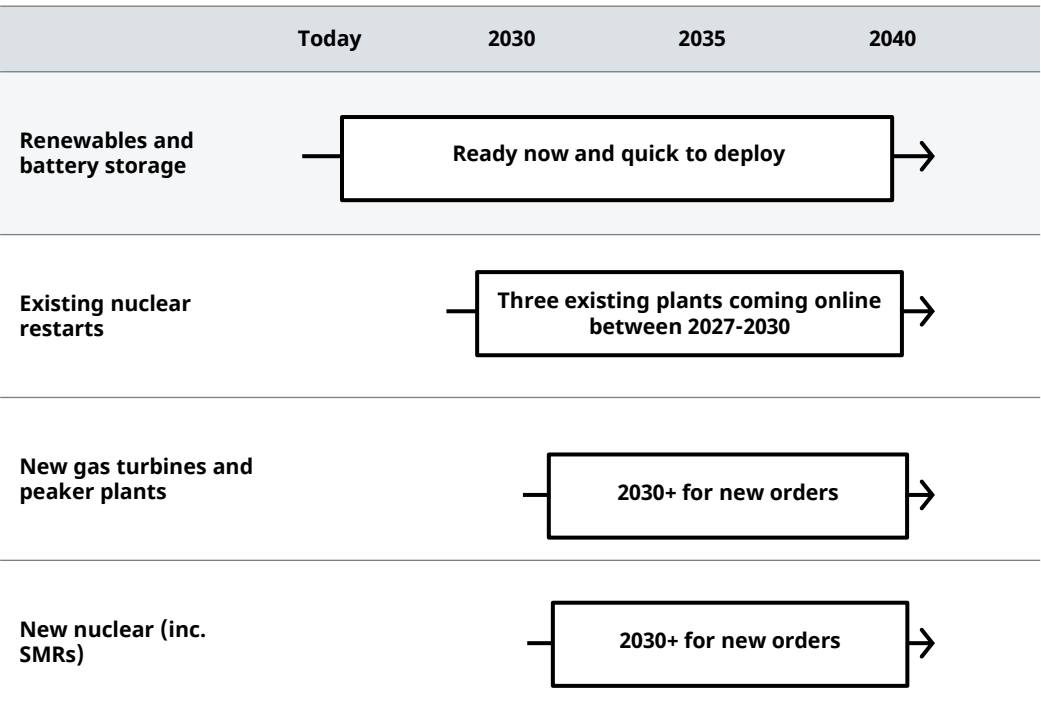
Global levelised cost of partial energy by technology

Levelised cost of energy (LCOE) (USD/MWh)



Expected deployment timelines by generation type

Time to power (years)

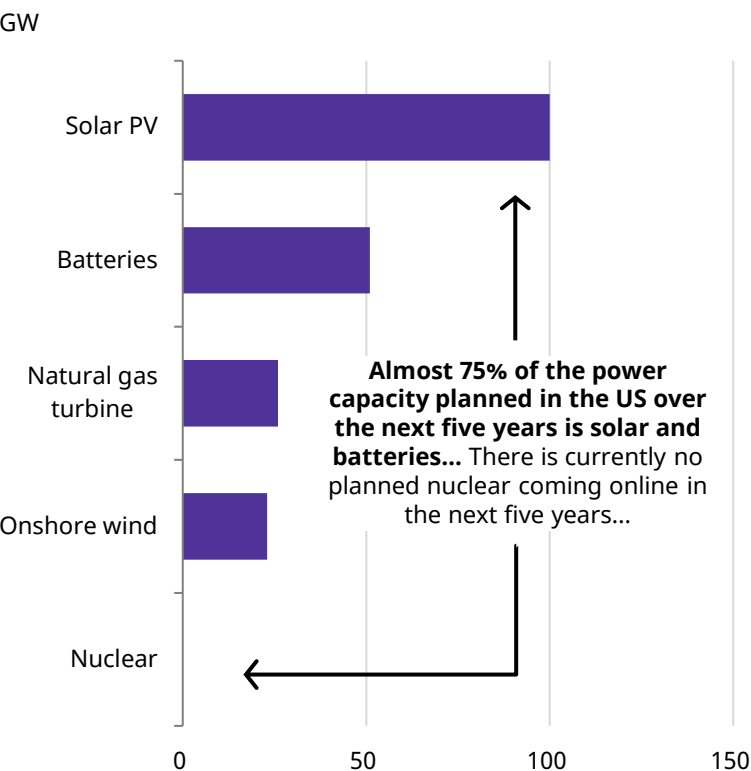


Source: BNEF, IEA, IRENA, Lazard, Thunder Said Energy Schroders – 28 February 2025. Please note LCOPE and firm clean power generation costs can vary significantly due to a variety of factors, including CO2 price, interest rates, efficiency, utilisation, interconnection cost, battery cost, etc.

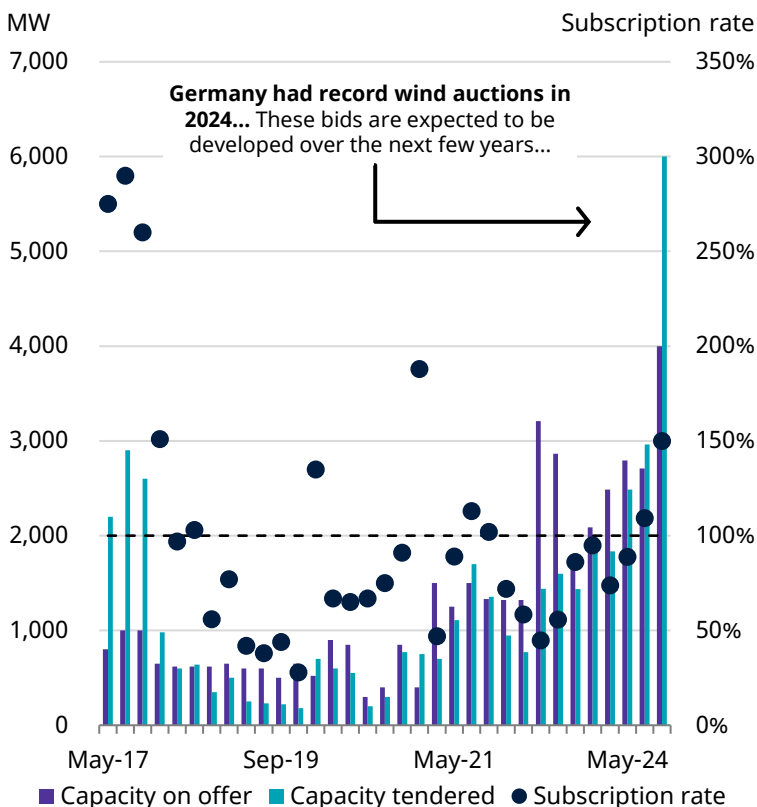
Renewables remain an attractive choice to meet new demand

This is clear when looking at the underlying demand trends across key markets

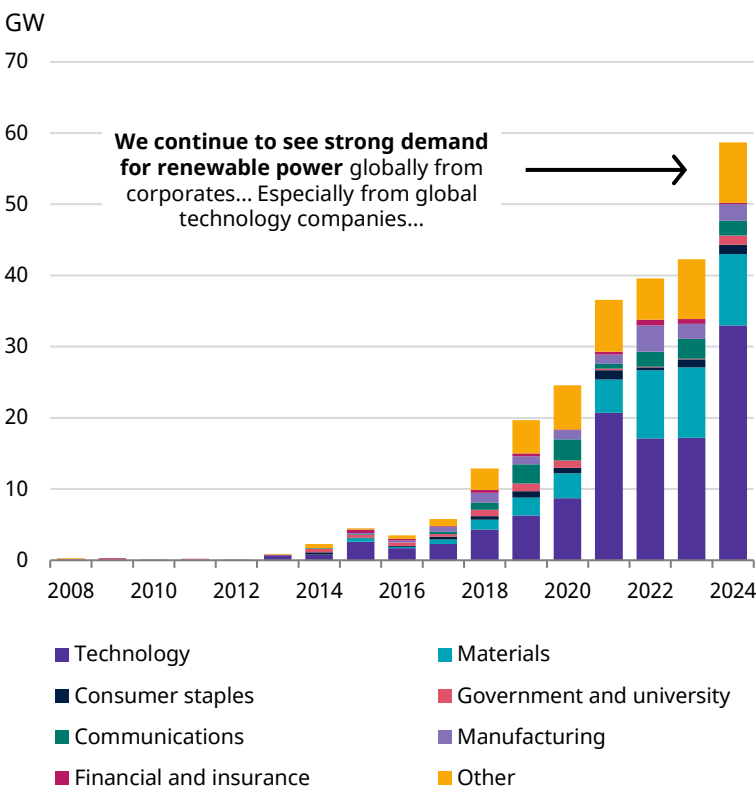
Current planned US power generation pipeline to 2030



German wind auction results by volume and oversubscription



Global corporate PPA volumes by sector



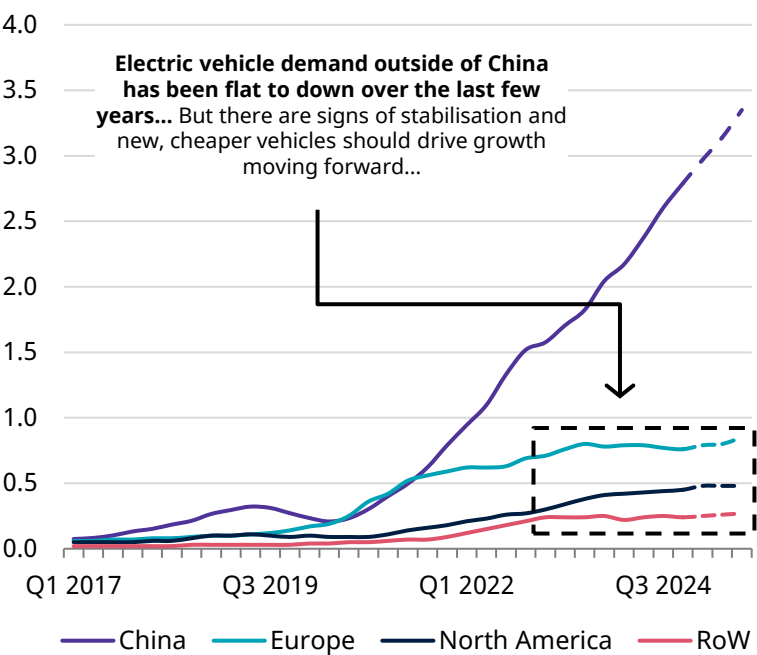
Source: BNEF, IEA, IRENA, Lazard, Thunder Said Energy Schroders – 28 February 2025.

Consumer-focused markets are showing signs of stability

End-demand is still subdued but companies have seen an improvement in earnings

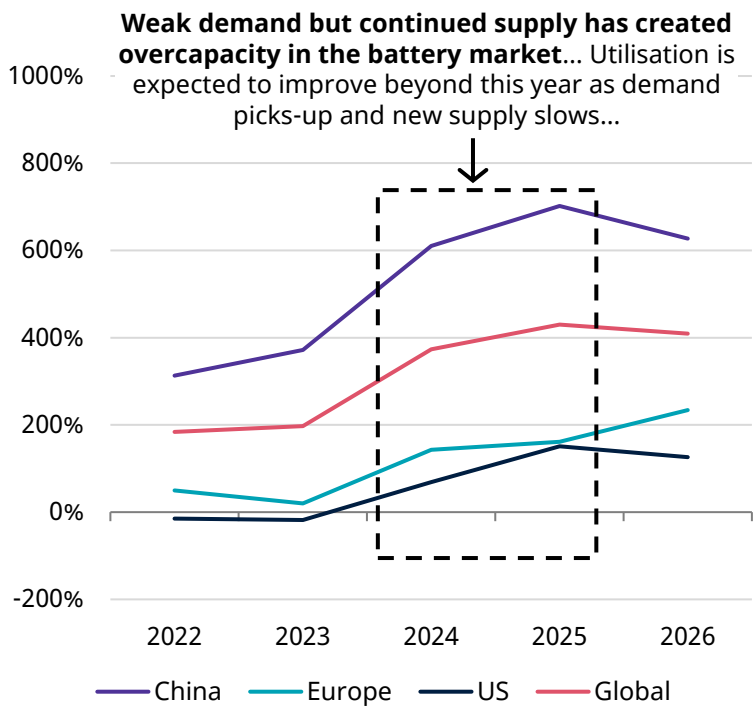
Historic and forecast global electric vehicle sales by region

Electric vehicle sales (m)



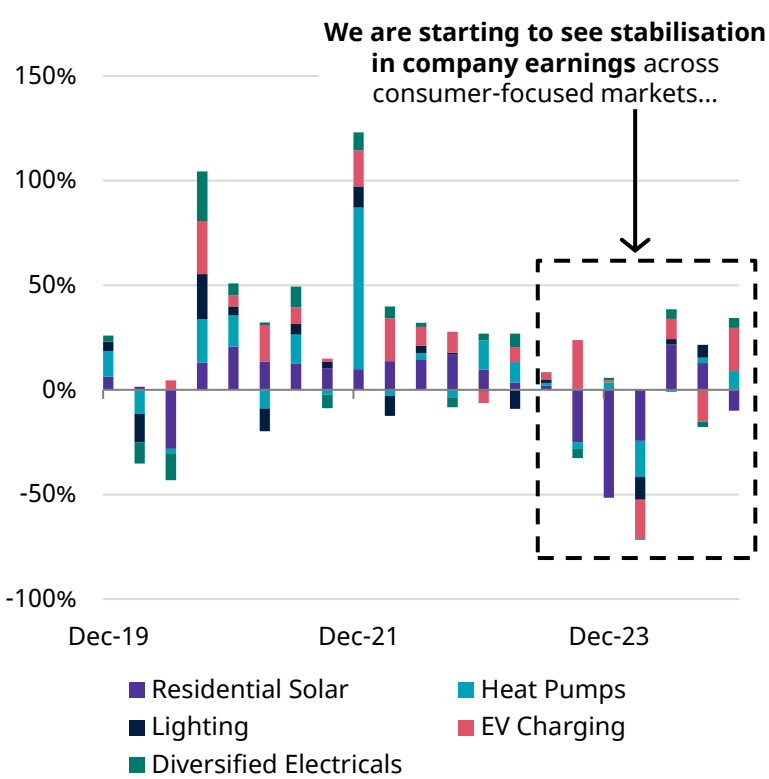
Lithium-ion battery cell manufacturing overcapacity ratio

GWh supply ratio (%)



Quarterly revenue growth in key consumer-focused end-markets

Quarterly growth (%)



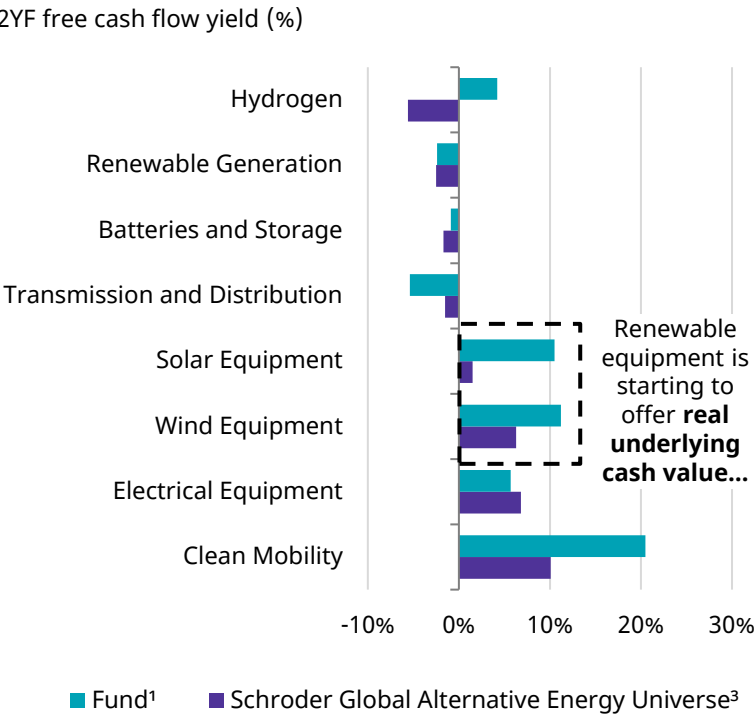
Source: Schrodgers, Bloomberg, BNEF, InsideEVs, Company Data – 28 February 2025.

Increased cash generation allows for potential capital returns

We are seeing increasingly attractive cash flow and dividend yields across the space

Past performance is not a guide to future performance and may not be repeated. The value of investment can go down as well as up and is not guaranteed. The return may increase or decrease as a result of currency fluctuations.

2YF free cash flow yields across portfolio and alternative energy

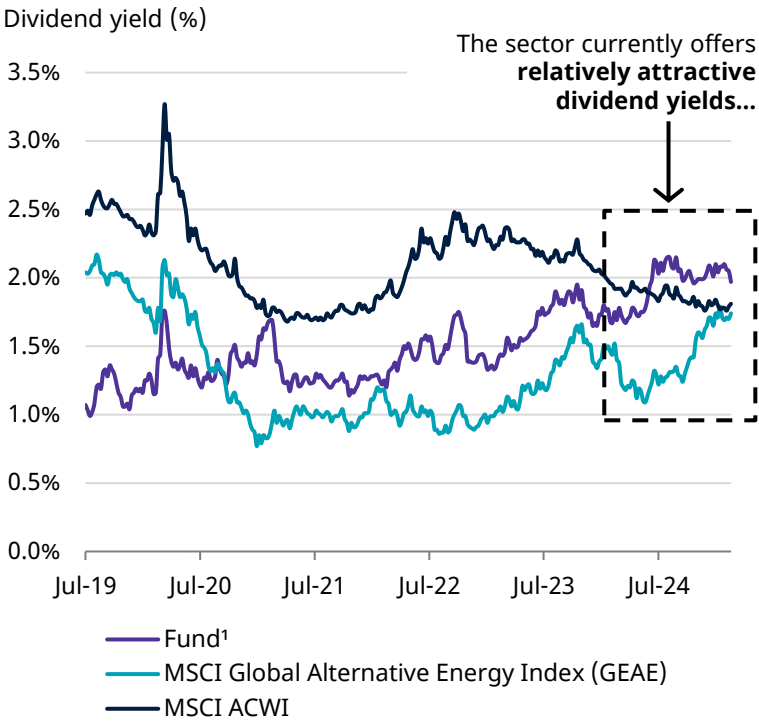


Selected alternative energy company valuations and yields

P/E multiples and free cash flow yields

	Average Pre-IRA P/E	2026 P/E	2026 Ex-IRA P/E	2026 Ex-IRA FCF yield
First Solar	28x	8x	20x	1%
Enphase	40x	15x	21x	4%
Array	24x	9x	14x	9%
Nextracker	26x	13x	17x	5%
Vestas	18x	9x	10x	6%

Weighted average portfolio and alternative energy dividend yield²



For illustrative purposes only and should not be viewed as investment guidance. Stocks shown are for illustrative purposes only and not a recommendation to buy/sell.

Source: Bloomberg, Schroders – 28 February 2025.

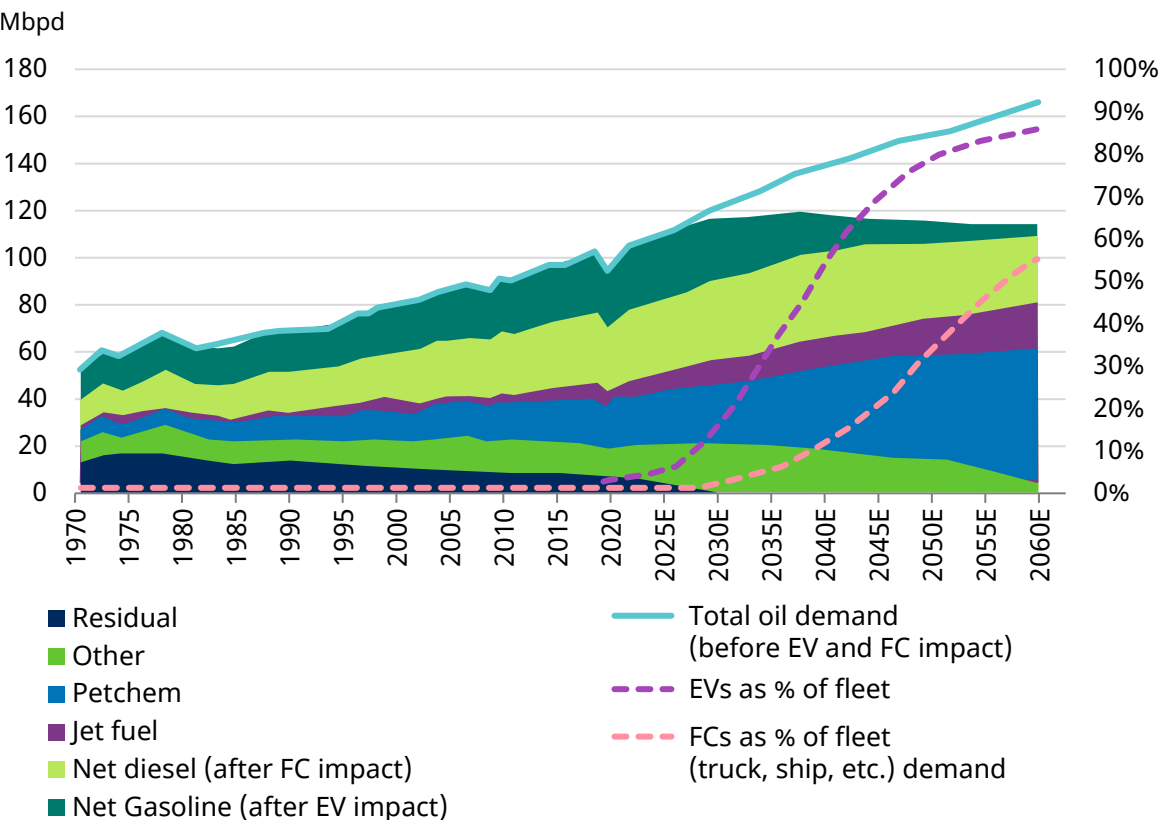
Note: ¹Schroder ISF Global Energy Transition USD I Shares Net. ²Represents two year forward estimated yield on an ex-cash basis. ³Average represents an equally weighted average for selected companies in the Schroder Global Alternative Energy 'tracked universe', which is comprised of selected companies from the 'full universe' with available data.

Long-term demand will fall as electric vehicles become prevalent

But demand is likely to remain fairly robust in the mid-term

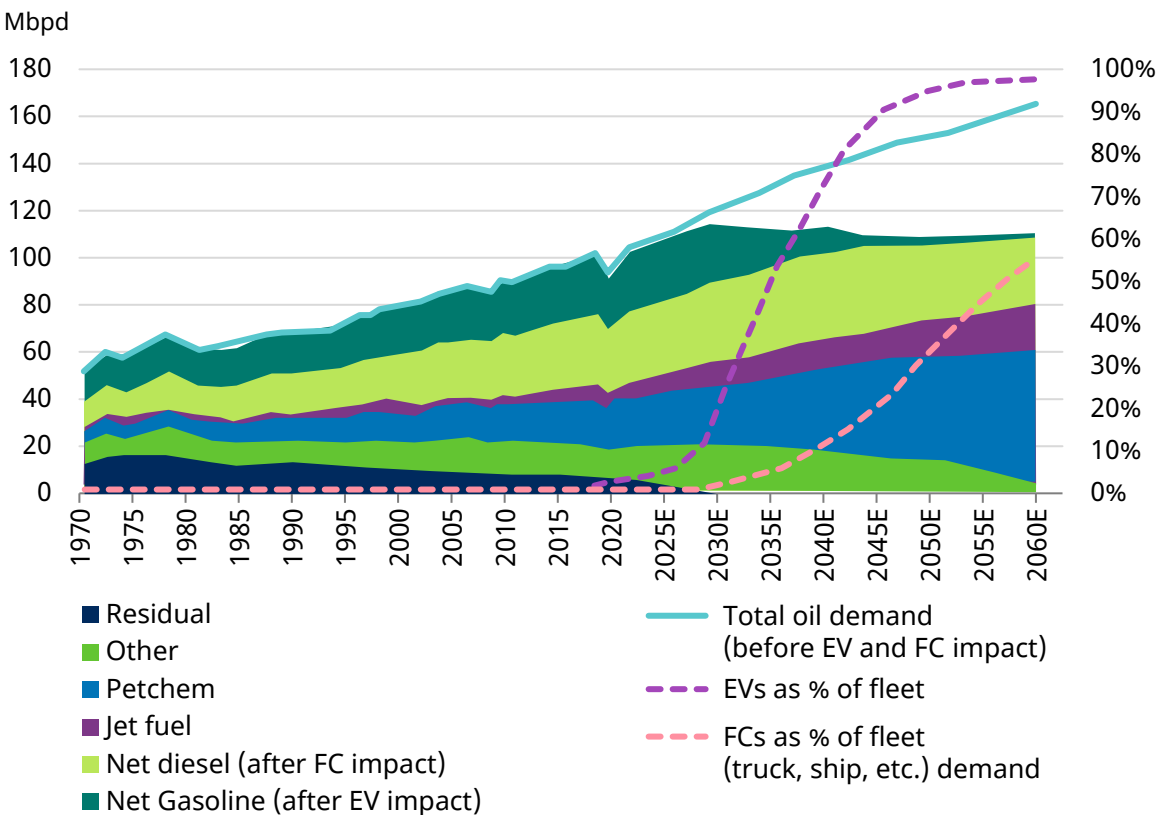
Base case EV adoption and impact on oil product demand

Long term oil demand (EV and fuel cell scenario)



Aggressive case EV adoption and impact on oil product demand

Long term oil demand (EV and fuel cell scenario)

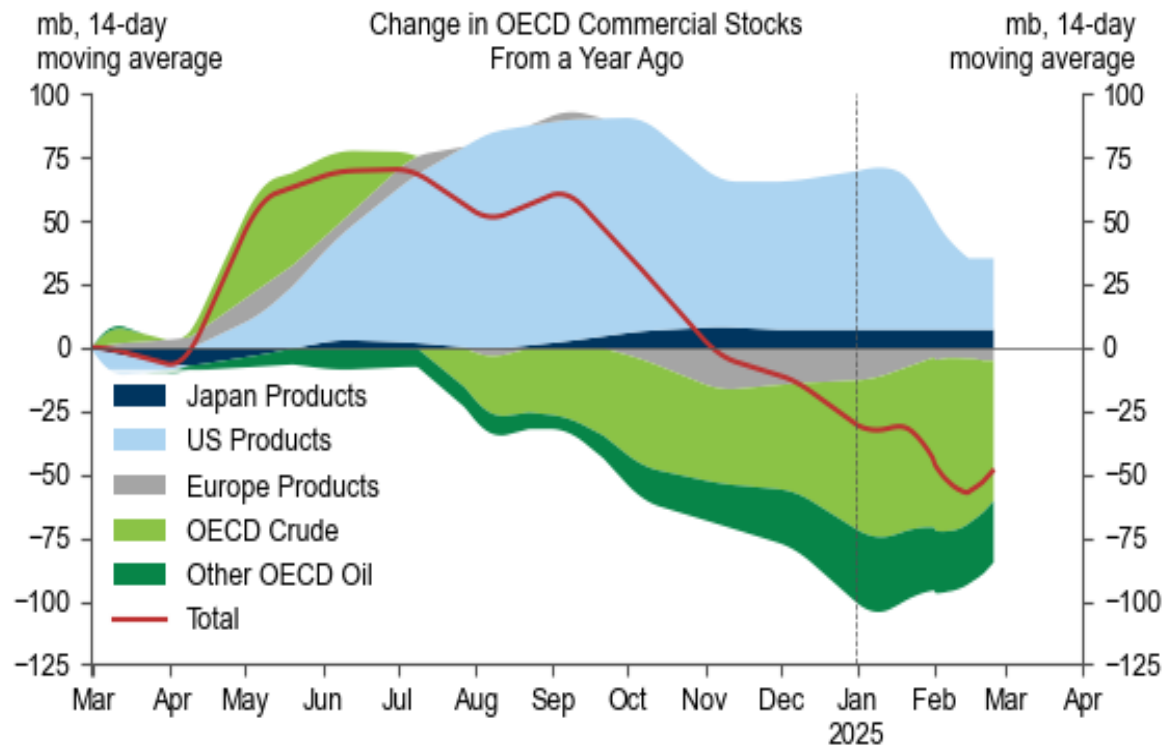


Source: Bloomberg, Bernstein, Schrodgers – January 2025.

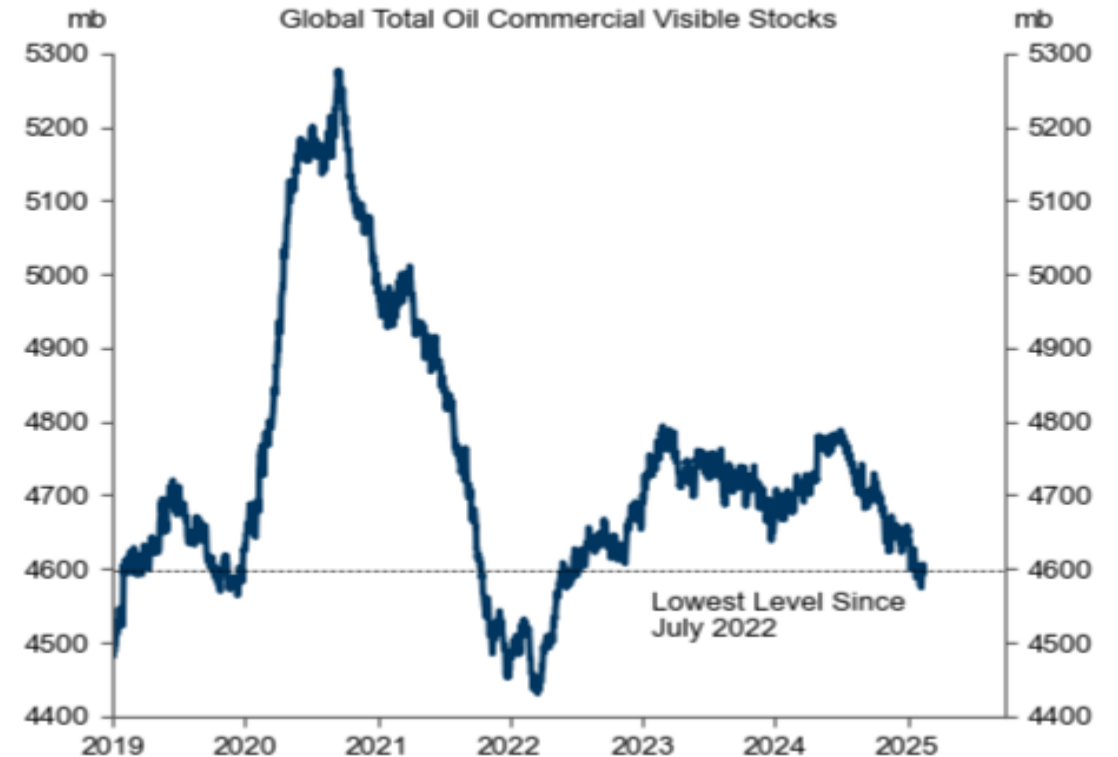
Global oil and product inventories

Inventories are below normal, but they are expected to build during Q2

Crude and products inventory changes by region



Global oil inventories (commercial mln bls)



Source: GS, Schroders estimates – February 2025

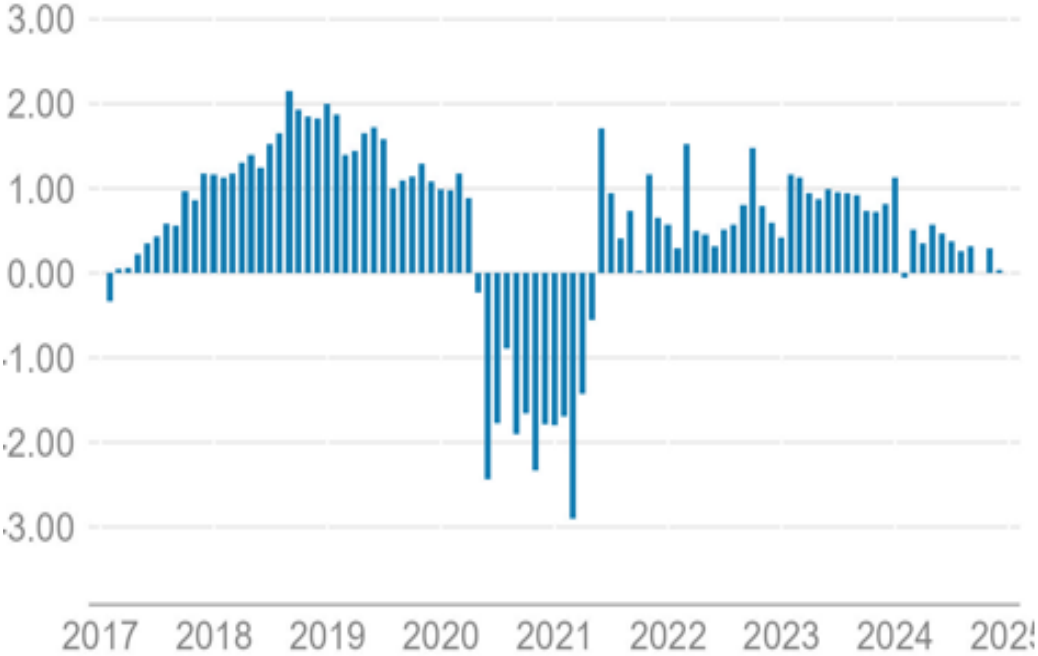
US oil production

Year-on year-production growth is slowing

US total oil production (Mb/day)



US production growth (y-o-y, Mb/day)

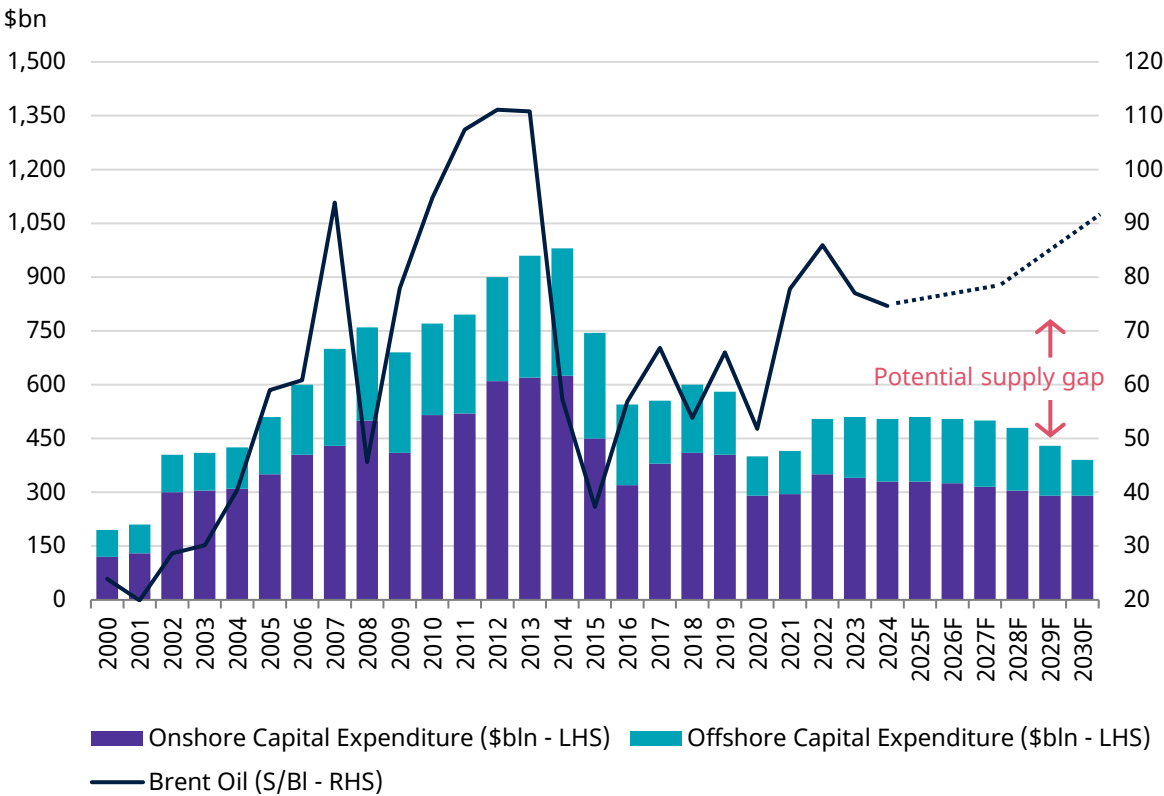


Source: MS, EIA – February 2025

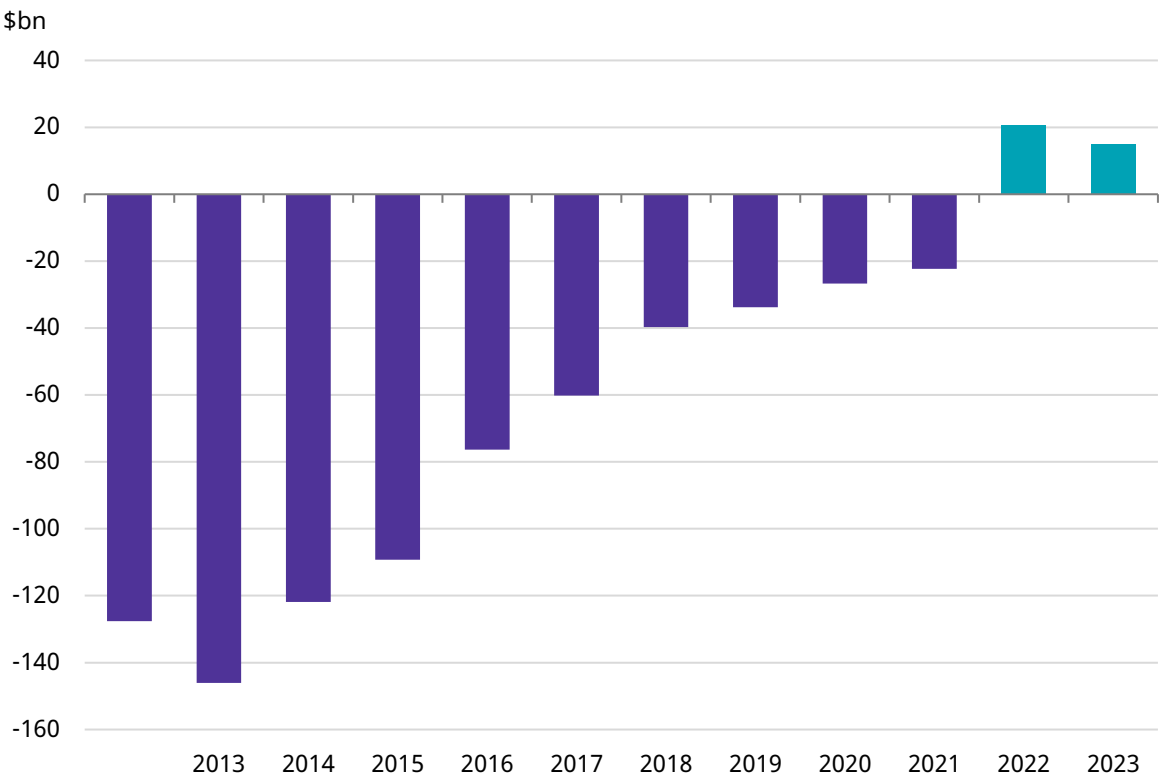
Capital discipline and redirection of capital

Increasing risk of supply gap due to lack of investment

Global oil and gas capital expenditure vs. oil price



Listed oil company return to shareholders vs. spending



Source: Schrodgers, RBC, company data – 15 January 2025.

Demand is likely the key variable to watch in the short-term

Soft demand and non-OPEC supply suggest well-supplied market for 2025

Global oil market – supply/demand balance

Million barrels/day

	2023A	2024A	2025F	2026F	2027F
Demand	102.1	103.0	102.6	103.2	104.1
OECD demand	45.9	46.0	45.2	45.2	45.3
Non-OECD demand	56.2	57.0	57.4	58.0	58.8
Non-OPEC supply	69.3	70.3	71.0	70.9	70.7
Non-OPEC excluding N. America	40.8	40.9	41.6	41.8	41.5
North America	28.5	29.4	29.4	29.1	29.2
OPEC NGL's/condensates	5.0	5.0	5.0	5.0	5.0
Call on OPEC crude	27.8	27.7	26.6	27.3	28.4
Actual OPEC (*)	27.5	27.0	27.4	27.4	27.4
Stockbuild	-0.3	-0.7	0.8	0.1	-1.0
Absolute change (m bls)	-109.5	-255.5	292.0	36.5	-365.0
OPEC operational spare capacity	5.3	6.0	6.1	6.1	6.1
Percentage of global demand	5.2%	5.8%	5.9%	5.9%	5.9%

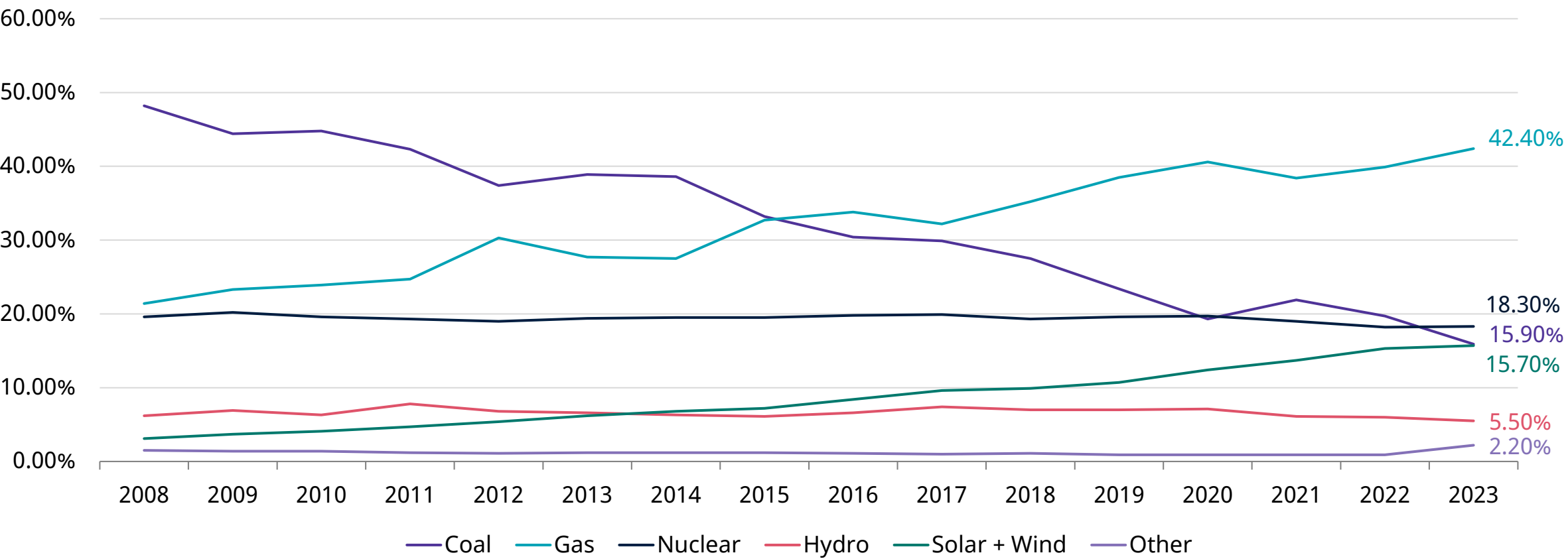
Source: Schrodgers (f), Energy Aspects (a) – February 2025.

* Current OPEC production

Gas market outlook

As coal gets displaced both gas and renewables share increases over time

U.S. power generation by source (percentage of total market)

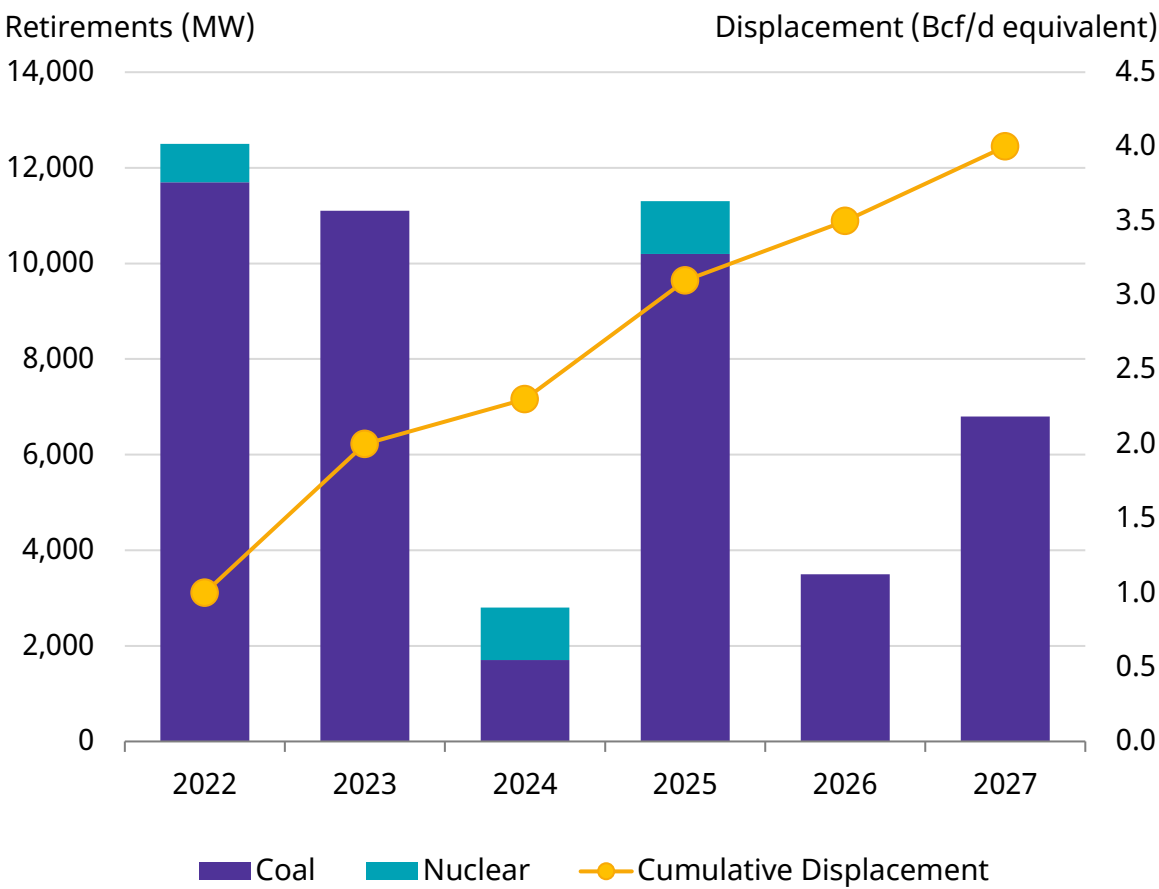


Source: EIA, Schroders – January 2025.

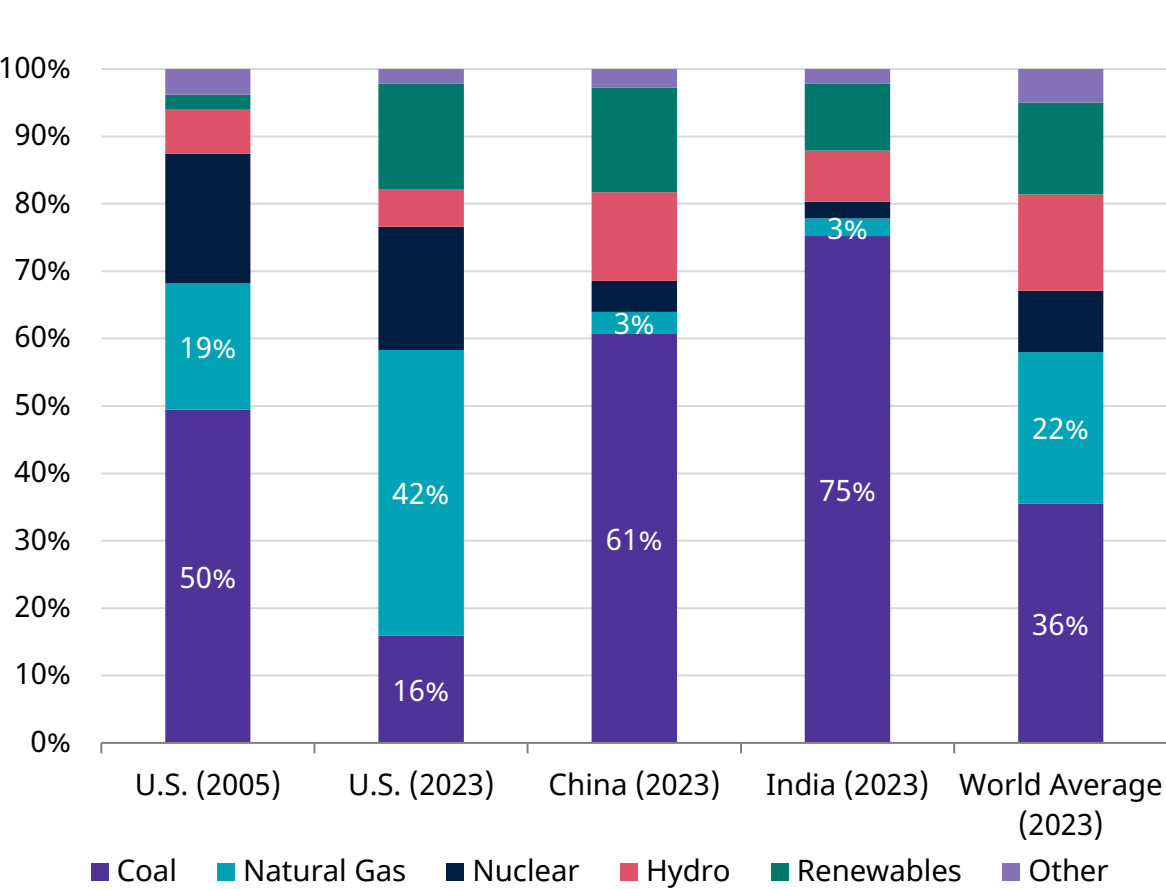
Global gas market

US gas market - 2025 sees a large amount of LNG exports and coal retirements

Announced coal and nuclear reactor retirements



US coal displacement and key market potential

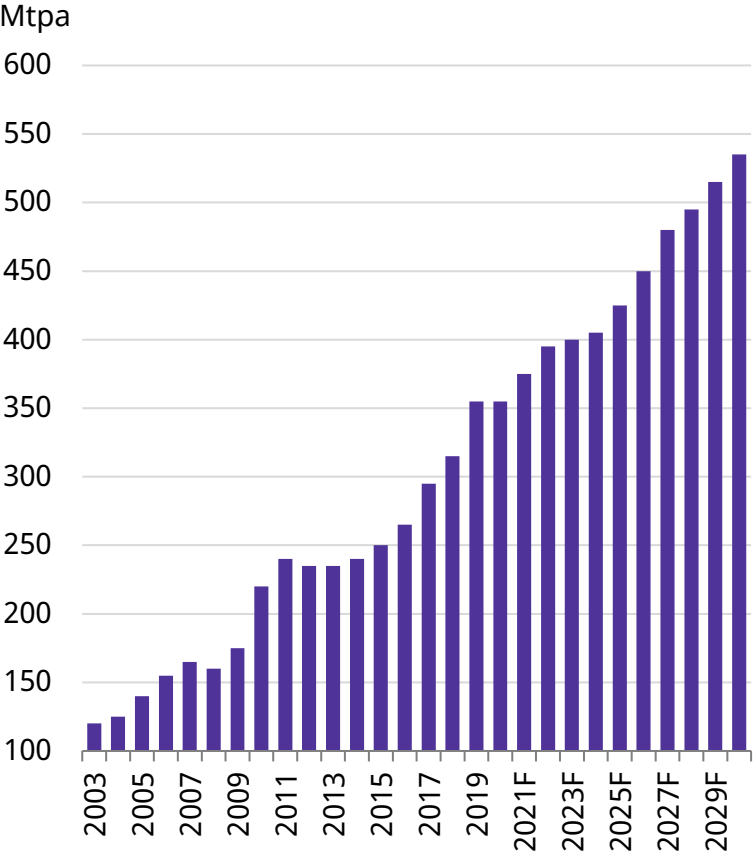


Source: EIA, Schroders. January 2025.

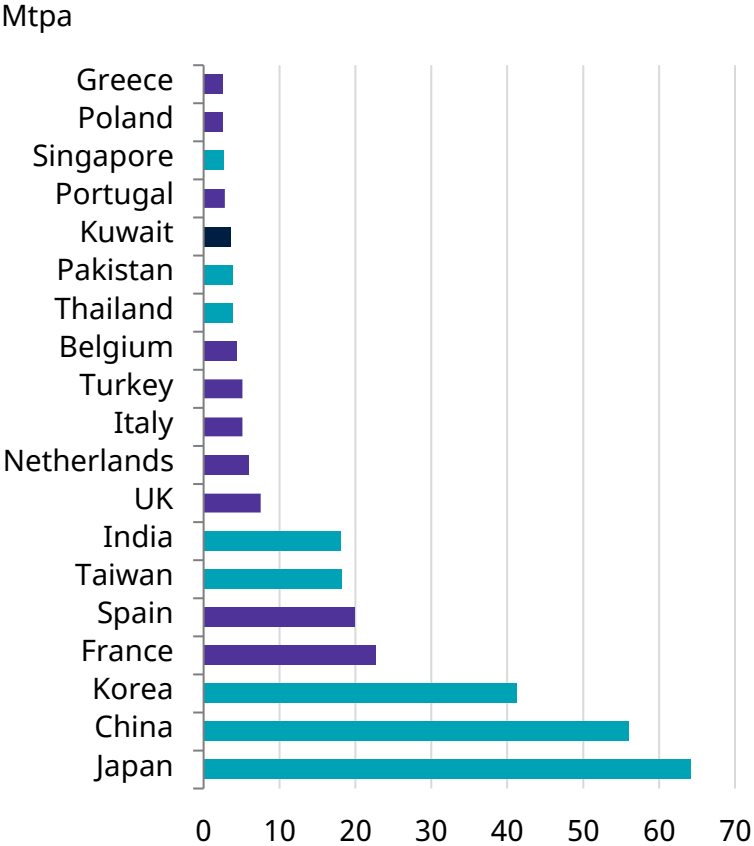
LNG demand will continue to remain strong going forward

LNG demand is forecast to grow strongly – Europe and China are big markets

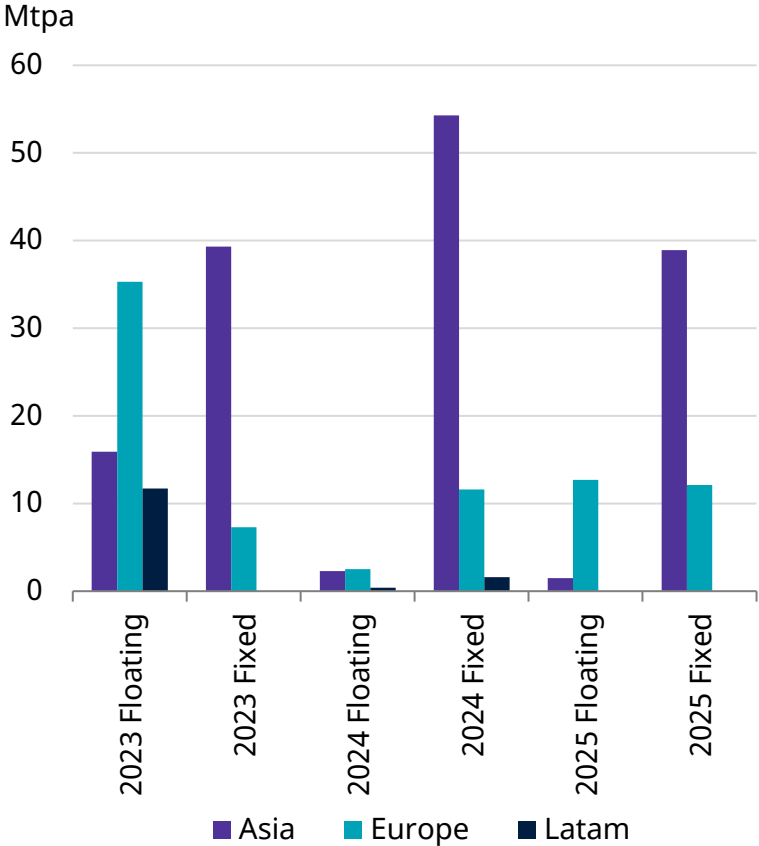
Global LNG demand



LNG imports by country



LNG imports capacity additions

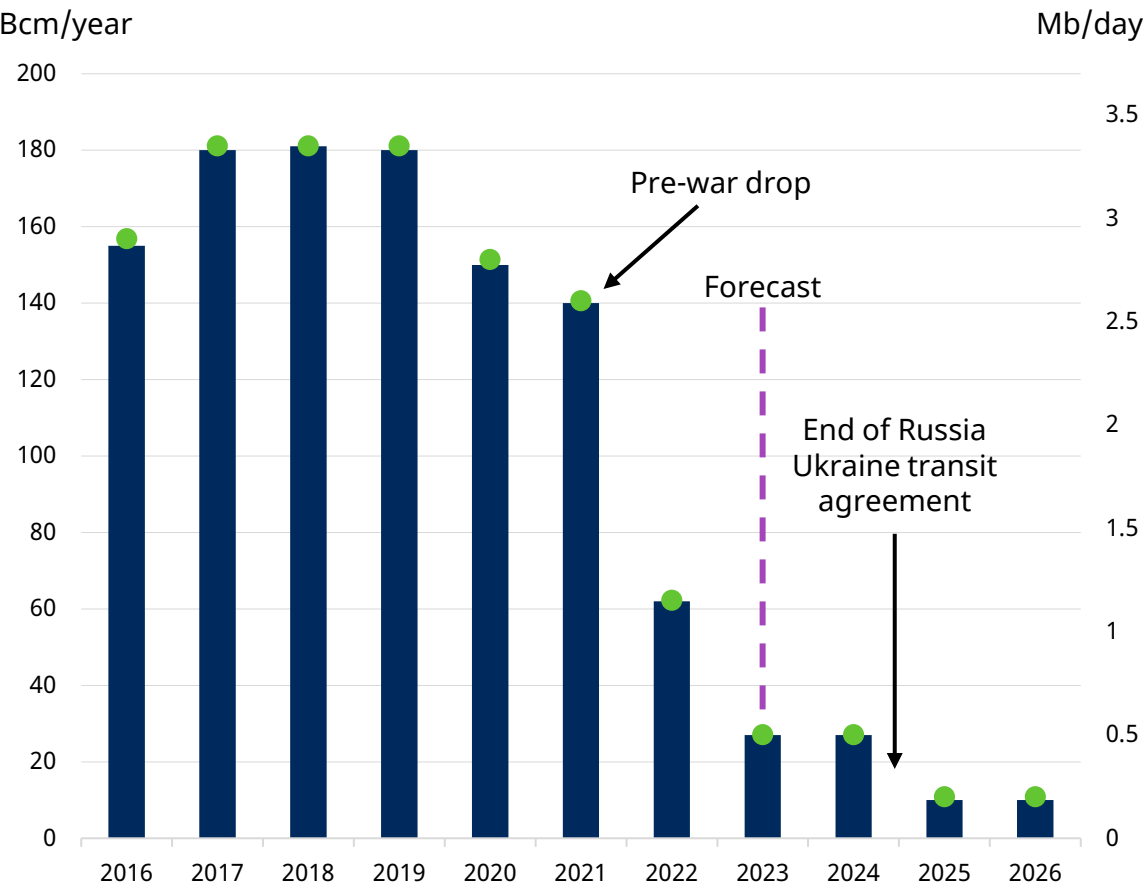


Source: Bloomberg, company data, Schrodgers – January 2025.

Russian gas developments have had a major impact on the market

Russian sourced gas is largely replaced with US LNG volumes

Russia natural gas flows to Europe



Source: Schrodgers, Bernstein – January 2025.

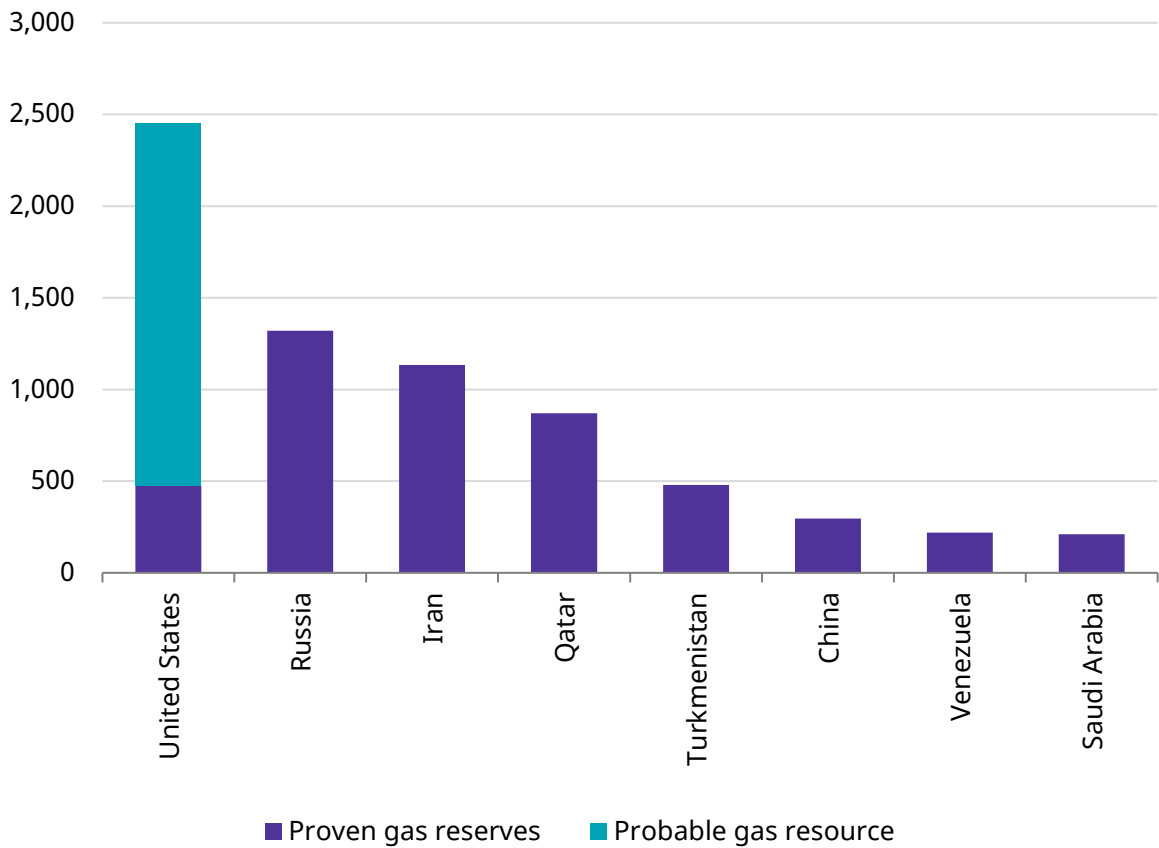
Russia – Potential export routes

Project	Capacity (bcm/y)	Expected start-up date	Likelihood
LNG projects			
Arctic LNG 2 Train 1	9.0	2023	90%
Sakhalin 2 Train 3	7.3	2026	20%
Arctic LNG 2 Train 2	9.0	2027	60%
A-Property Terminal Train 1	12.2	2027	20%
Arctic LNG 2 Train 3	9.0	2028	60%
Obssky Train 1	6.0	2028	60%
Ust-Luga (Baltic LNG) Train 1	8.8	2030	30%
Vysotsk Train 2	1.6	2030	20%
Far East LNG (Sakhalin 1) Train 1	8.4	2030	20%
Ust-Luga (Baltic LNG) Train 2	8.8	2031	20%
Ust-Luga (Baltic LNG) Train 3	8.8	2033	20%
Pipeline projects			
Power of Siberia 1 (ramp-up)	21.0	2025	90%
Far East project	10.0	2026	70%
Power of Siberia 2	50.0	2030	60%

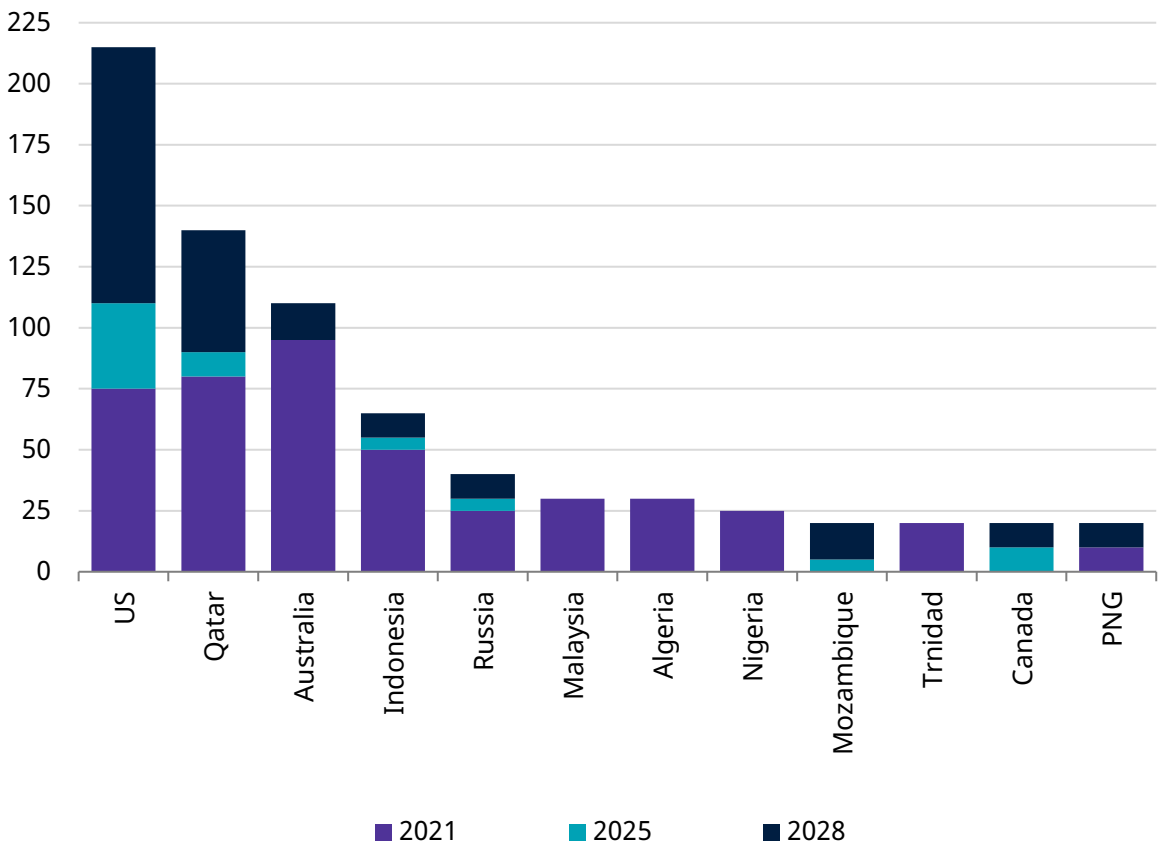
Future demand is likely to outweigh supply in the medium-term

A significant increase activity is needed to meet future demand requirements

Global gas reserves by country (Tcf)



Global LNG export capacity (mtpa)

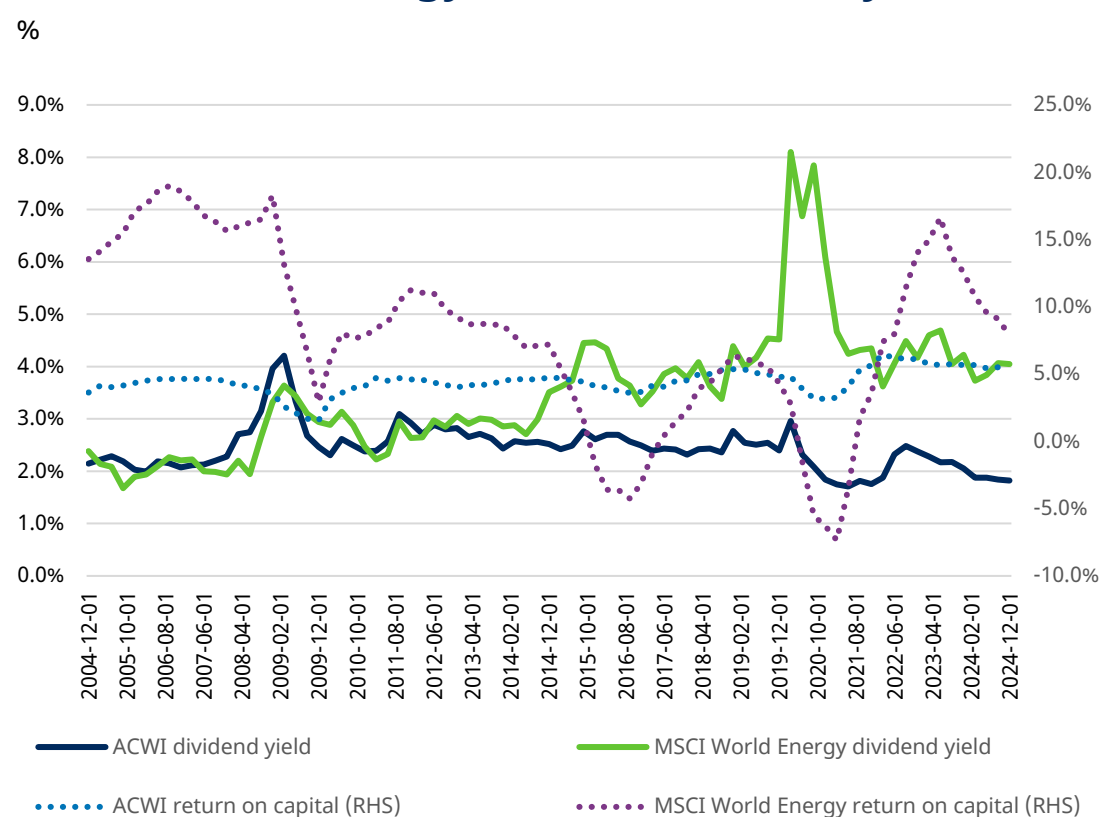


Source: Schrodgers, EA, EIA – January 2025.

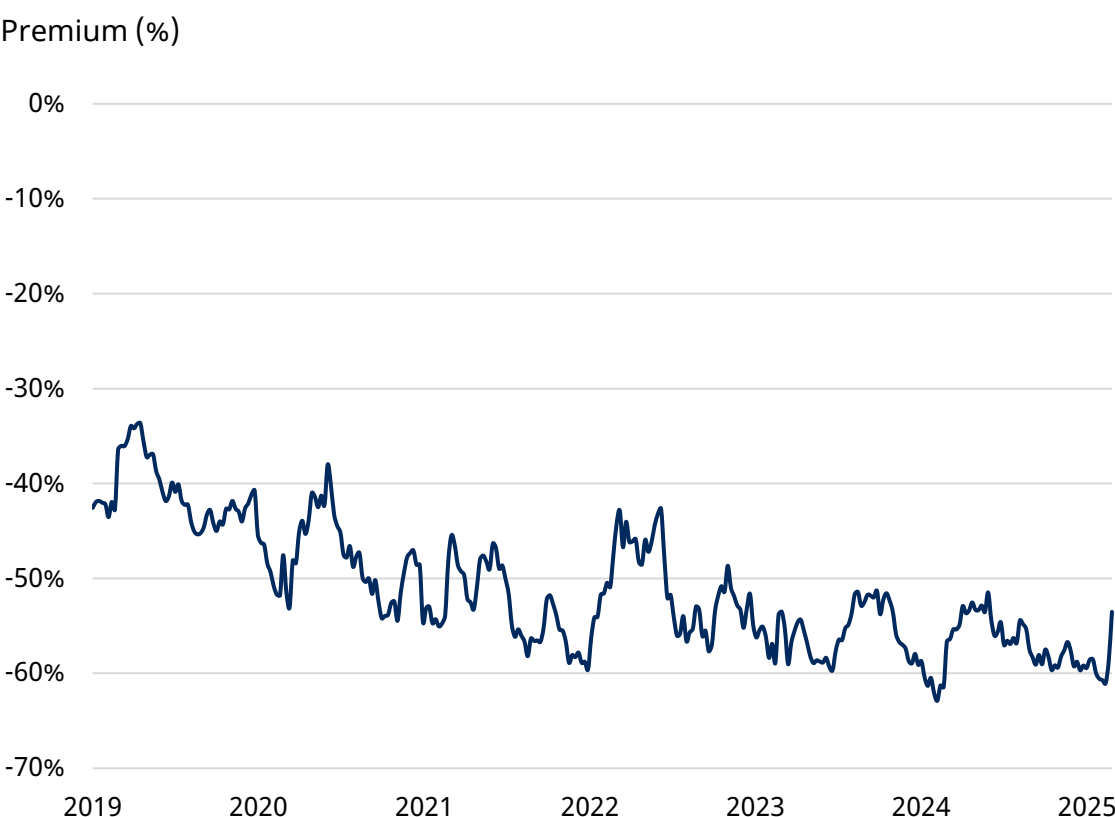
Energy equity valuations

Valuations overall look attractive versus the wider equity market

ACWI vs World Energy - ROIC & dividend yields



Relative 2YF EV/EBITDA against wider market

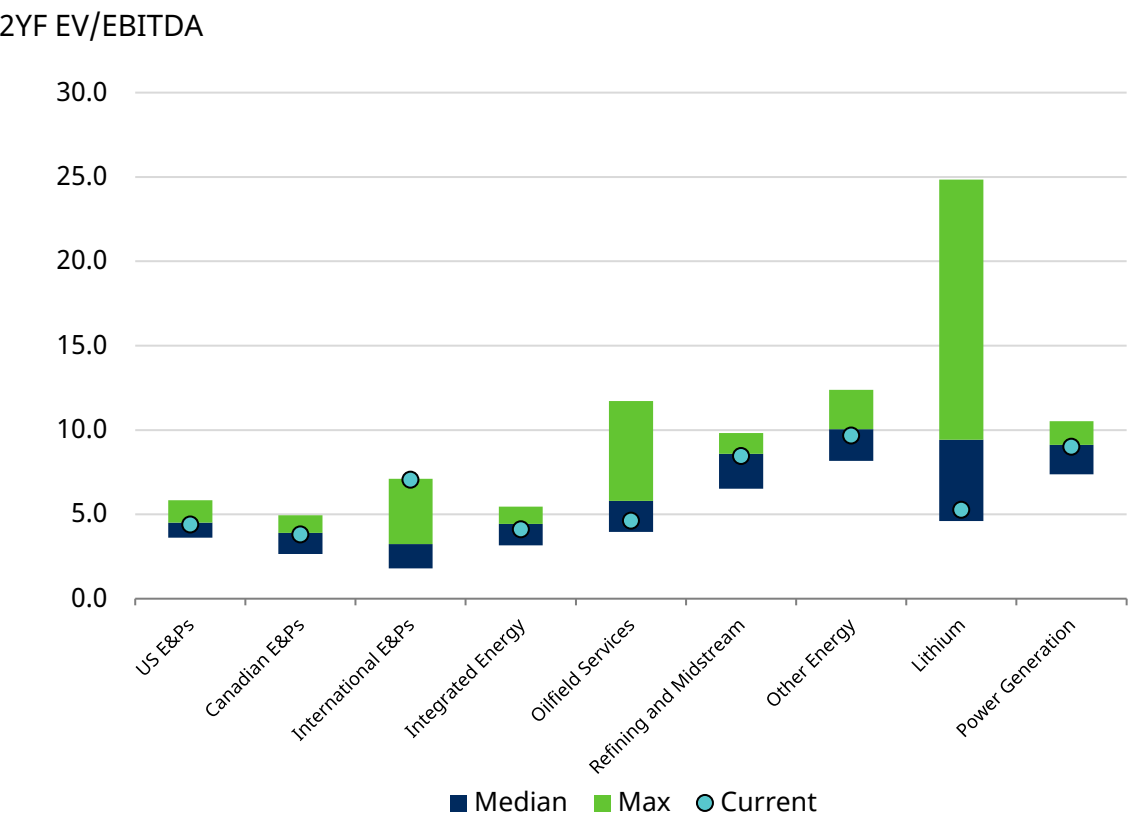


Source: Bloomberg, Schroders – 28th February 2025. ¹Average represents an equally weighted average for selected companies in the SISF Global Energy universe. ²Wider market as defined by MSCI ACWI. For illustrative purposes only and should not be viewed as a recommendation to buy or sell.

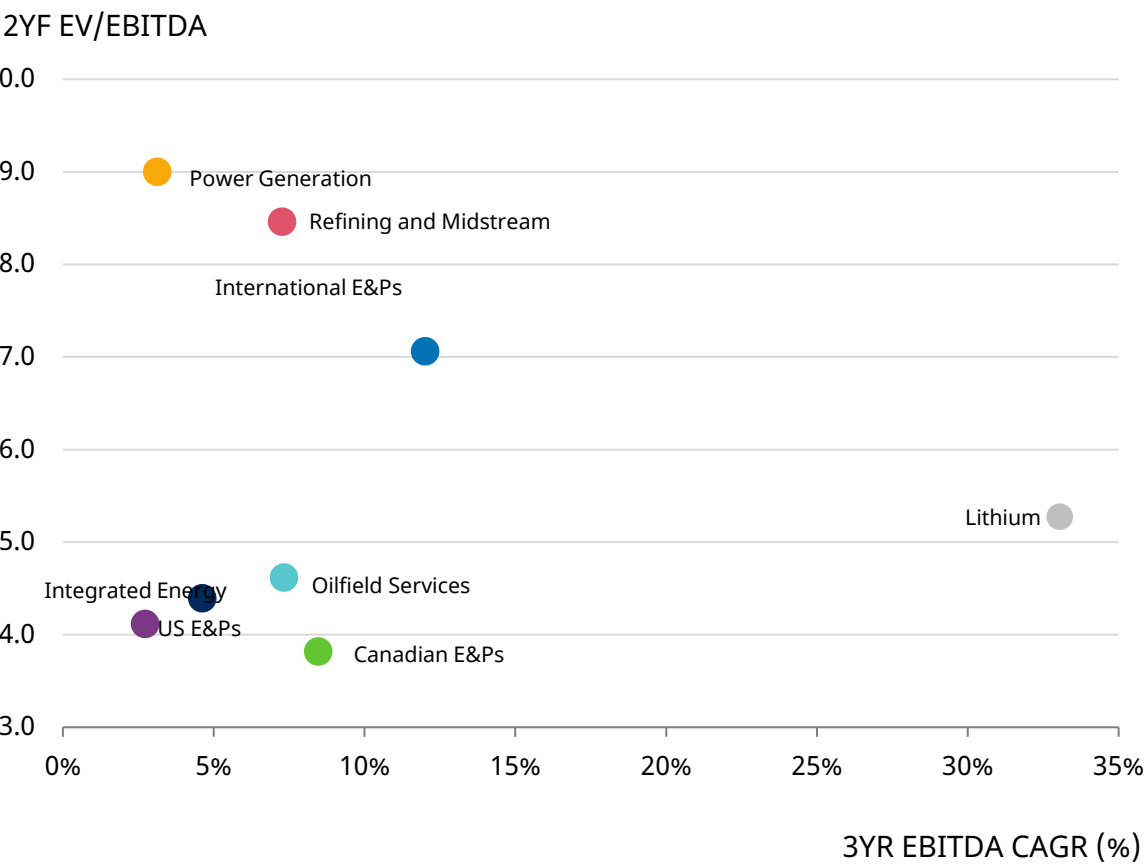
Energy equity valuations

Valuations look very reasonable on an absolute and relative basis

Average sub-sector 2YF EV/EBITDA¹



Average sub-sector 2YF EV/EBITDA vs EBITDA growth¹



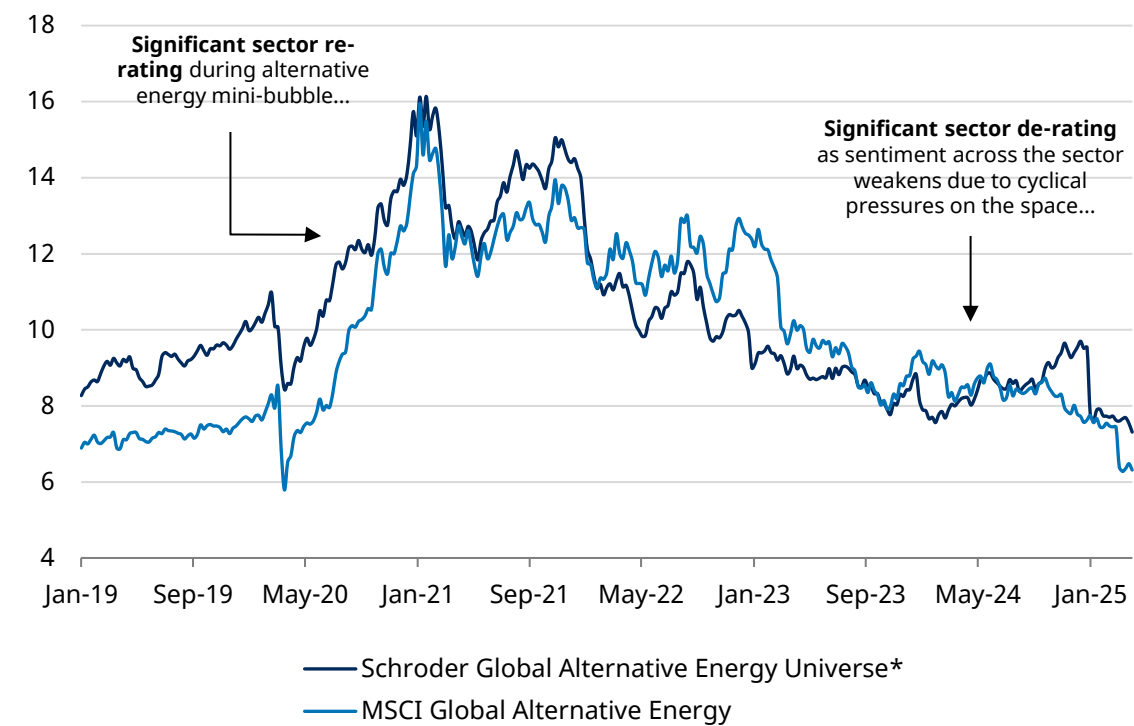
Source: Bloomberg, Schroders – 28th February 2025. ¹Average represents an equally weighted average for selected companies in each sector within the SISF Global Energy universe. For illustrative purposes only and should not be viewed as a recommendation to buy or sell.

Alternative energy valuations

Valuations have returned to attractive levels on an absolute and relative view

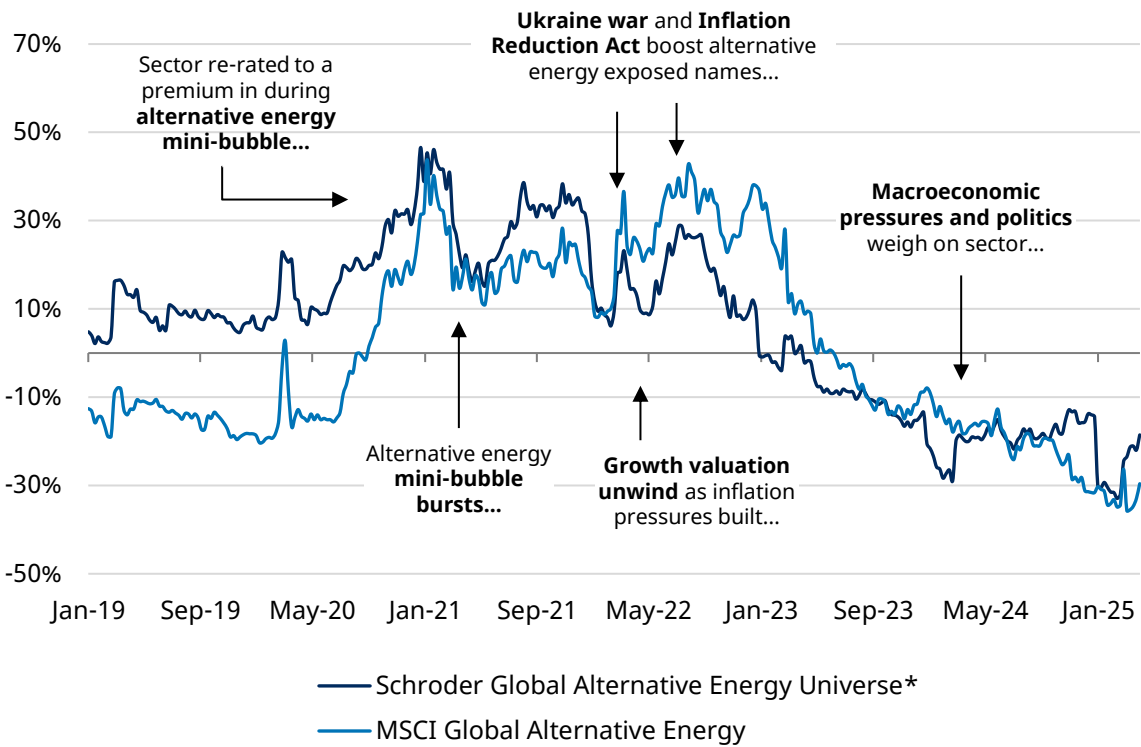
Average alternative energy sector 2YF EV/EBITDA

2YF EV/EBITDA



Relative sector 2YF EV/EBITDA against ACWI

Premium (%)

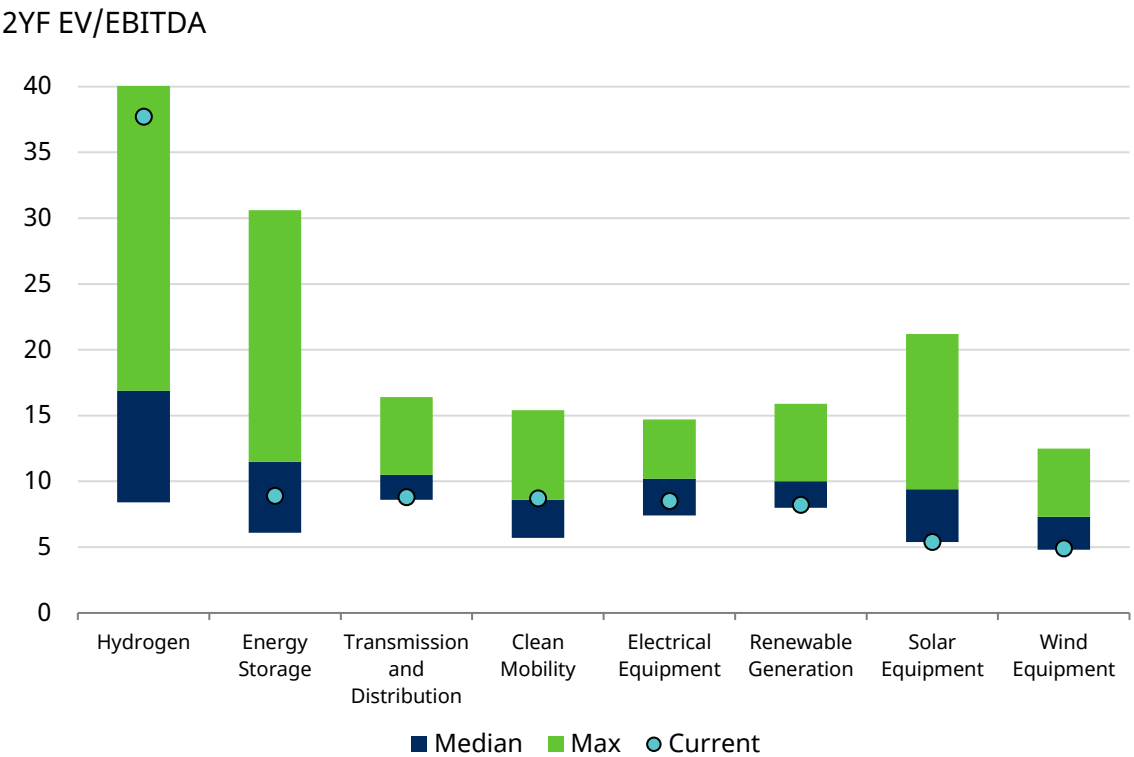


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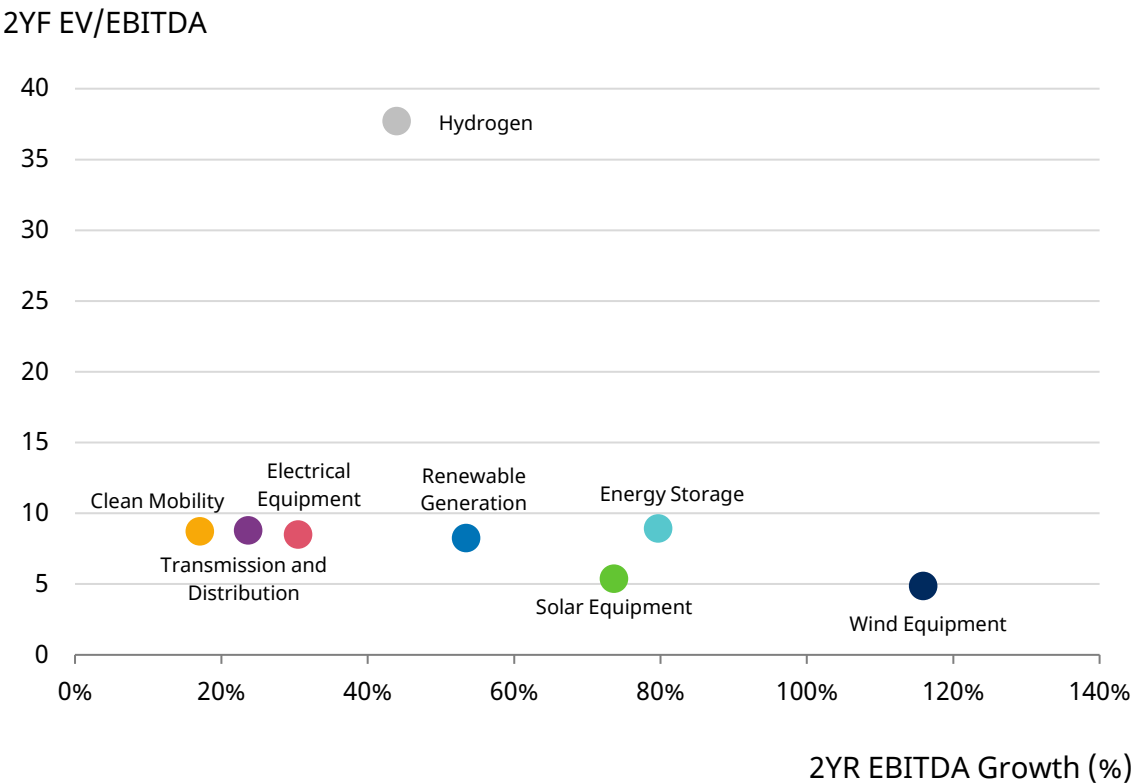
Alternative energy valuations

Valuations have improved across most sub-sectors following recent weakness

Average sub-sector 2YF EV/EBITDA¹



Average sub-sector 2YF EV/EBITDA vs EBITDA growth¹



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Risk considerations

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- Counterparty risk: The fund may have contractual agreements with counterparties. If a counterparty is unable to fulfil their obligations, the sum that they owe to the fund may be lost in part or in whole.
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- Currency risk / hedged share class: The currency hedging of the share class may not be fully effective and residual currency exposure may remain. The cost associated with hedging may impact performance and potential gains may be more limited than for unhedged share classes.
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- Market risk: The value of investments can go up and down and an investor may not get back the amount initially invested.
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- Sustainability risk: The fund has the objective of sustainable investment. This means it may have limited exposure to some companies, industries or sectors and may forego certain investment opportunities, or dispose of certain holdings, that do not align with its sustainability criteria chosen by the investment manager. The fund may invest in companies that do not reflect the beliefs and values of any particular investor.

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