

HEARD ON THE STREET

Clean Energy Has Investors Seeing Green

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With oil prices near \$60 a barrel, some savvy investors are betting that there must be a few attractive alternatives out there.

Until recently, many investors ignored alternative-energy companies. Traditional energy giants were racking up profits, reducing the need to look elsewhere. And companies with ambitious plans to develop cheaper or cleaner alternatives were often disappointments. Shares of many of these companies can be too puny for major mutual funds or hedge funds to consider, or are quite volatile.



But with energy prices sky-high, shares of some companies involved in alternative-energy sources, or with improving existing sources, are looking more attractive. Experts have long argued that if energy prices stay at elevated levels for an extended period, consumers and companies will begin switching to alternatives, as costlier energy sources become more feasible.

The safest way to play alternative energy is through larger companies boosting their focus on the area, such as Sasol Ltd., a South African oil and natural-gas company with a market valuation of almost \$19 billion. Sasol long has had a major business taking low-grade coal and converting it to liquid fuels. But Sasol now is a leading company focusing on converting natural gas into high-quality, low-sulfur diesel fuel -- part of an effort called gas to liquids, or GTL. Sasol expects to launch the world's largest GTL facility in January.

While others are examining the GTL market, Sasol is considered to be ahead of the game. Along with its partners, Sasol expects to produce as many as 500,000 barrels a day in the next decade, up from around 40,000 barrels a day today.

Sasol shares are up about 90% in the past year, helped by the recent strength of the dollar. Sasol gets most of its revenue in U.S. dollars, so it is something of a bet on the greenback and against the South African rand. But shares still trade at less than 12 times earnings expectations for the next year, lower than some giants like **Exxon Mobil Corp.** though higher than **Chevron Corp.** and some that operate in emerging markets.

The GTL business may allow Sasol to grow at a faster clip than its rivals, which makes the stock look reasonably priced, argues Tim Flannery, portfolio manager at FrontPoint Partners LLC, a Greenwich, Conn., hedge fund that owns some Sasol shares.

In 4 p.m. composite trading on the New York Stock Exchange, Sasol's American depository receipts were up 39 cents at \$27.47.

FPL Group Inc. is among the companies making a big bet on wind-powered energy, which accounts for about 1% of U.S. consumption currently but could reach as high as 4% or 5% in the next decade, some investors say, if energy prices stay high and governments around the globe continue to provide incentives to companies to switch to cleaner wind-produced energy.

FPL, which sells electricity through its Florida Power & Light unit and has a \$16 billion market valuation, is involved in wind energy through its FPL Energy unit, the largest operator and developer of wind farms and turbines in the U.S. Its 45 U.S. wind facilities command an estimated 40% of the country's wind market.

There is reason for caution on the stock, however. FPL, which was at \$41.57 in 4 p.m. composite Big Board trading, is more expensive based on expected earnings than many of its utility rivals, and the wind business might not provide substantial earnings for a number of years. Wind provided about 25% of FPL Energy's generating capacity last year, and the unit contributed roughly 20% of earnings.

Still, **General Electric** Co. is pushing into the market for producing and maintaining wind turbines. Revenue from wind power likely will top \$2 billion this year, up from \$500 million three years ago, according to Mark Little, vice president for power production. Revenue could hit \$4 billion in the next few years, as GE's technological expertise helps to drive down the cost of turbines.

A few weeks ago, investment bank **Goldman Sachs Group** Inc. completed the purchase of Houston-based Zilkha Renewable Energy, which develops and constructs wind-energy facilities. Goldman also is boosting its wind-related advisory and investments business.

Given the size of the companies, the problem with focusing on GE (which traded at \$35.72 at 4 p.m. on the NYSE), or Goldman (which was at \$102.47) or other major companies pushing into alternative energy is that even if they hit a gusher with these businesses, the profits are unlikely to send shares surging.

That is why some more adventurous investors are focusing on stocks like **KFX** Inc., a company aiming to take inexpensive, water-laden, low-grade coal and convert it into high-quality -- and much more expensive -- coal. For two decades, KFX has been working on technology to take Western U.S. coal that sells for about \$6 a ton, clean it up and make it more comparable to more-expensive Eastern coal. The process is expensive, but with Eastern coal rising to about \$60 a ton lately, and tax credits rewarding the use of this kind of coal, KFX has become a darling of hedge-fund traders, with shares on the American Stock Exchange soaring to about \$14 from \$6 or so since August. KFX expects to start converting coal later this year. Hedge-fund firms including Eastbourne Capital Management LLC, Ritchie Capital Management LLC, Kingdon Capital Management LLC, and Perry Corp. were among the bigger holders of KFX at the end of the first quarter, according to securities filings.

"They've been at it for years and a lot of people don't believe their story, but we've put the time into it and we think the technology will work," says Eric Sippel of the \$2 billion hedge fund Eastbourne, the largest holder of KFX at the end of the first quarter.

But there are those who are skeptical that KFX will be able to convert low-grade coal and sell it in the quantities that bulls expect. Some are shorting, or betting against the price of KFX shares, doubting that utilities, a conservative bunch, will agree to buy the cleaned up coal. About 25% of KFX shares have been sold short.

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