

ALTERNATIVE ENERGY REVISITED: ETHANOL

Most of a year has passed since I first researched and wrote about possible investments in alternative energy companies (Alternative Energy Grows Up, 10/1/05). Recently I have been asked about investing in ethanol, which was not yet a hot topic last fall. Because this alternative fuel became so popular so fast, I was unable to find a quality company I could recommend that wasn't already overpriced. Until today. But first I want to follow up on what has happened with my past recommendations.

Nearly all of the stocks I recommended last fall gained in stock price, but are now lower in price or trading at about the same price they were then, with the exception of Ormat Technologies. They ran up in price, because of oil prices rising so rapidly, which drove home the need to develop alternatives. Still, investors want to invest in profitable companies, and none of these small, alternative energy companies are in the black yet. Again, the exception is Ormat. And my new ethanol recommendation, Aventine Renewable Energy Holdings (AVR).

An Ethanol Recommendation

Aventine Renewable Energy Holdings (AVR, \$24) produces and markets ethanol in the U.S., accounting for approximately 13.5% of our total ethanol volume. The company began trading publicly at \$43 at the end of June, trending lower ever since. They are now attractively priced at 15 times their \$1.62 earnings per share, slightly lower than the S&P 500's 17 P/E. Earnings estimates for 2006 are \$2.04/share and \$2.44 for 2007. Their debt to equity ratio is reasonably low at .8.

Aventine's second quarter revenue dramatically increased (132%), largely due to the increase in the price of ethanol to \$2.41 per gallon, up from \$1.38. They are investing capital in the construction of a 220-million gallon ethanol production facility in Indiana, and in Nebraska they have purchased 86 acres next to an existing facility, of which they are part owners, where they propose to build another 220-million gallon facility.

If ethanol continues its popularity as the favorite alternative, Aventine appears to be a solid investment choice.

PowerShares Wilderhill Clean Energy Portfolio (PBW, \$17), an Exchange Traded Fund (ETF):

ETFs are a relatively new kind of investment, sort of a hybrid of mutual fund and individual stock investing. Briefly, an ETF allows you to buy or sell throughout the trading day a basket of categorized stocks; taxes are incurred only when you sell the ETF.

Not surprisingly, this ETF's price pattern is similar to those of its stocks: it was \$17 last October, went as high as \$24, and is \$17 again.

The top 5 holdings (3 of which are solar energy companies), which represent 15% of the portfolio, are, in order of percentage of the total portfolio: Energy Conversion Devices, Suntech Power Adrs, Sunpower, Hydrogenics, and Evergreen Solar.

Energy Conversion Devices (ENER, \$32): invents, develops proprietary new materials, products, and technology, called "ovonic", in areas of information technology, energy generation, and energy storage.

Suntech Power Holdings (STP, \$26): is a Chinese designer and manufacturer of photovoltaic cells, converting sunlight into electricity.

Sunpower (SPWR, \$30): makes solar electric power products based on its proprietary processes and technologies.

Hydrogenics (HYGS, \$1): makes test stations for proton exchange membrane fuel cells.

Evergreen Solar (ESLR, \$9) – Although a small company (\$626 million), Evergreen has increased income in each of the last five years. They are a “pure” solar company.

Individual Stock Worth a Look

Ormat Technologies (ORA, \$38) – This geothermal power plant operator is the exception I mentioned earlier. It was \$22 last fall, doubled in price, and is now \$38. Plus they have been profitable for the last four years, with a five-year growth rate estimated at 19%. Its business model is completely environmentally friendly and includes plans to operate recovered energy power plants. Their plants are installed in Hawaii, California, New Zealand, and several other countries.

Make Your Own Basket

If you like the idea of investing in clean, alternative energy stocks, but aren't thrilled with the make-up of the ETF, you can choose a handful of individual companies that do meet your criteria.

For the environmental purist there's **Evergreen Solar (\$9)**, **Ormat Technologies (\$38)**, and **FuelCell Energy (FCEL, \$10)**, whose power plants provide clean, efficient, and reliable electricity provided by its fuel cells. FuelCell has installed or been awarded new contracts for its Direct FuelCell power plants by a substantial number of large corporations and government agencies in the last few months, which will improve earnings; but manufacturing costs per kWh are high, preventing the company from being cash flow positive.

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Sources: www.amex.com; www.schwab.com