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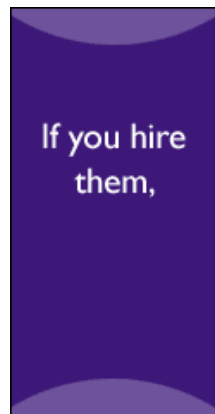


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Fuel to the fire

Alternative energy is risky play on hot sector

By [Barbara Kollmeyer](#), MarketWatch
Last Update: 7:45 PM ET Sept. 22, 2005 [[Page 1](#) | [2](#)]

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LOS ANGELES (MarketWatch) - With demand for oil and natural gas running high and energy supplies thin, some opportunistic investors see green in global companies that are developing alternative sources of fuel.

In a mark of how much interest is being given to this often volatile and speculative sector, the PowerShares WilderHill Clean Energy Portfolio ([PBW](#): [news](#), [chart](#), [profile](#)), an exchange-traded fund, almost tripled in assets, to \$150 million from \$55 million, since Hurricane Katrina hit the Gulf coast three weeks ago and energy prices shot higher.

Rob Wilder, creator of the seven-month-old fund, said the industry's growth outlook is robust, especially in light of expectations the U.S. will eventually become a big user of alternative energy.

"There's so much money swishing around in the U.S...when the U.S. begins to embrace clean energy, it'll really happen with force," Wilder predicted.

Other countries are already far ahead of the U.S. when it comes to using alternative energy sources. "Some of these countries like Japan don't have access to oil like we've had, so they've always been a bit smarter about energy," Wilder said. "It's no coincidence the Prius comes from Japan."

In the developing world, China is moving to wind power and India is embracing solar power, while Japan, Germany, Denmark and Spain are also making use of those alternative energies, some farther along than others, Wilder noted.

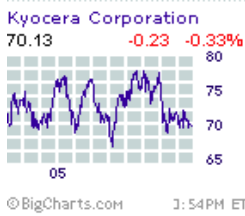
The PowerShares index only invests in U.S.-listed companies, but the ETF owns three foreign companies: Japan's solar-powered equipment maker Kyocera Corp. ([KYO](#): [news](#), [chart](#), [profile](#)), U.K.-based Scottish Power PLC ([SPI](#): [news](#), [chart](#), [profile](#)), for its wind power exposure and BOC Group PLC ([BOX](#): [news](#), [chart](#), [profile](#)) for its gaseous fuels.

Wilder sees more international players coming into the index in the future. "We purposely, intentionally, left the rules open on that as global and international companies list in the U.S., which will increasingly happen in this field."

Big field, but difficult terrain

As for investing in the sector, Wilder himself is quick to point out that investors should be aware of some important caveats. For example, high oil prices tend to cause a rush to alternative energy companies, but that can reverse when prices ease.

"We're tracking a very volatile sector, with lots of small caps that are in very emerging technologies," he said. "Wind is here now, solar is getting there, too, in terms of economic viability. Still way speculative



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are hydrogen fuel cells.

"It's a very speculative index," Wilder added, "and I would imagine anyone trading or selling the ETF would be cognizant of that and limit their exposure to a very small percentage."

By definition, alternative energy is broad. The WilderHill fund invests in only "clean" companies, which excludes alternative energy companies that use fossil fuels or nuclear energy. Accordingly, all clean companies are alternative, but not all alternative companies are clean.

Frederick Jiang, manager of the Ivy Pacific Opportunities Fund (IPOAX: [news](#), [chart](#), [profile](#)) said that in developed markets, alternative energy typically refers to wind farm, solar cell, hydrogen and fuel cell.

In developing markets, "alternative" could mean nuclear power, liquefied natural gas (LNG) and liquefied coal gas -- though oil and coal remain the most important energy sources for those countries.

Jiang said investors looking to capitalize on burgeoning growth in emerging Asia might have a tough time, as there aren't many listed shares available to international buyers.

"It's true that China and India are already using alternatives such as wind and solar, but the scale is very small and they won't become meaningful sources of energy for at least another decade," Jiang noted in an e-mail interview.

The few pure plays include solar-cell producers like Tawian's Motech and Thailand's Solartron (XE:A0D9V8: [news](#), [chart](#), [profile](#)), Jiang said. He added that Solartron is inexpensive versus competitors in the developed world, but the stock is up over 200% year-to-date and a key risk for the stock is the price of oil.

"The lower the oil price, the less the demand for solar products," he said.

Continued: [Please see Page 2](#)

Barbara Kollmeyer is a reporter for MarketWatch in Los Angeles.

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India's Suzlon Energy, which is planning an initial public offering soon, is another to keep an eye on, Jiang said. "It's Asia's largest wind turbine generator maker and is a dominant player in India," he said. "You can expect the deal to be very hot as oil prices close to all time highs."

As the high-tech solar and hydrogen sectors don't offer many investment options in emerging markets, Jiang said Asian companies involved in coal liquefaction, nuclear power and natural gas are themselves an alternative for investors.

Such companies include: CNOOC ([CEO: news, chart, profile](#)), a key LNG player in China; PTT Public Co. LTD, Thailand's dominant pipe gas producer; Indian companies Oil and Natural Gas Corp. LTD ([ONGCE: news, chart, profile](#)) and Reliance, and Malaysia International Shipping Corporation Berhad (MISC), the biggest international LNG carrier. Hyundai Heavy Industries Co. and Hyundai Mipo are major LNG ship builders, he said.

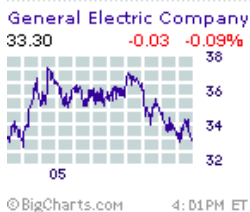
"All of these companies have turned in strong performances this year, but if oil prices continue to stay at this high level, they should go up even further," Jiang said.

Others he mentioned include China Shenhua Energy ([HK:1088: news, chart, profile](#)), a big player in the liquified coal gas area, which is building Asia's largest coal liquefaction plant in Inner Mongolia. Sinolink Worldwide ([HK:1168: news, chart, profile](#)) is involved in that industry via its subsidiary EnerChina. On the nuclear side, he likes Shanghai Electric ([HK:2727: news, chart, profile](#)), which he predicted will be "a major beneficiary of China's ambitious plan of building 40 or more nuclear power reactors by 2020."

Developed world plays

Investors can also look to the developed world for stocks involved in alternative energies, such as South Africa's Sasol LTD ([SSL: news, chart, profile](#)), which produces liquid fuels from coal.

Meanwhile, General Electric Co. ([GE: news, chart, profile](#)), the U.S. conglomerate, has a big wind business, providing turbines for China and across the global. Germany's Siemens AG ([S: news, chart, profile](#)) is one of the world's leading vendors of wind energy systems, with turbines across the developed and developing world.



However, T. Rowe Price technology analyst Wenhua Zhang noted that while GE is one of the world's biggest companies, only a small percentage of its revenue stems from wind energy

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Commanding a bigger slice of the wind energy market is Dutch-based Vestas Wind Systems AS ([VWSYF: news, chart, profile](#)), while in Spain, Endesa SA ([ELE: news, chart, profile](#)) is a supplier of electricity via hydroelectric, fossil fuel and nuclear generation.

Of global energy sources, renewable energy makes up just 2%, with wind and solar representing 1% each, Zhang said. "The key problem is the cost...it's still very expensive in terms of the cost of the material that's used in converting solar energy into electricity."

As for where such stocks belong in an investor's portfolio, all experts agree that it's a volatile sector, but one that savvy investors may want to watch closely.

"For folks who want to get exposure to this area, we think it's a growth area, we think it's attractive, but should surely be in proportion of their risk level because it's got a history of volatility," said equity research analyst John Quealy, with investment manager Adams, Harkness & Hill.

"If anything, the volatility in energy costs have seemed to open everyone's eyes," he added. "You need to diversify your sources no matter what."

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