

\$2.25 Buys Growth and the Equivalent of 12.5 Barrels of Oil

By Robert L. Roach

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Oil prices have been all over the board this last year. They gave us a wild ride from \$70 a barrel, to \$130, to \$40-something and then back to \$70. But while the fossil fuels were causing pain at the pump, an alternative was quietly being developed. One with a stable, low cost.

This alternative fuel is commercially viable at today's energy rates. Its production process is efficient, producing four to five times the energy used to create the fuel. And it converts low-cost nonfood plants, low-quality coal, and industrial or household waste into clean fuel.

Fossil fuels are traded according to the heat they produce, measured in units of 1 million Btu (MMBtu). Currently, oil is going for \$12 per MMBtu and natural gas for \$4 per MMBtu. Each has traded for at least twice that much in the last year. But this alternative fuel can be produced at \$2 to \$4 per MMBtu, consistently.

The owner of the alternative technology is working with \$38 million in cash reserves. They also own resources used to make alternate energy. The resources – enough to make the equivalent of 700 million barrels of oil – are located in Fox Creek, Alberta. And company stock is publicly traded.

The alternative fuel? Synthetic gas (syngas) produced by plasma gasification. It is also known as clean coal technology.

The company? Alter NRG. They own Westinghouse Technology, the world's leading technology for plasma gasification. The process is time-tested: 20-years of successful production around the world. It turns low-cost materials into an alternate fuel that burns about as clean as natural gas. They make it in gas or liquid form. And they do it at a lower production cost than natural gas or corn ethanol.

Alter NRG sells its patented gasification equipment in roughly \$30 million modules. Bottom line: every 1 million gallons of annual capacity built by a customer yields about \$1 million in equipment and engineering sales for Alter NRG.

The company has five strong partners/customers, with 16 projects in the engineering pipeline. Those are likely to bring in \$400 million in equipment and engineering sales over the next few years. That's \$8 a share. And another 43 projects are proposed worldwide.

One customer, Coskata, seems about to place an order for equipment for a plant with a 50 million gallon annual capacity. That's \$50 million for Alter NRG, about \$1 a share.

There are a lot of opportunities to make money with plasma gasification in the USA. Alter NRG says that capturing 10 percent of gasification projects for processing waste would mean \$3 billion in equipment and engineering sales. Just 10 percent of projects retrofitting power plants would bring in another \$1.5 billion. And 10 percent of the biomass market gives Alter NRG \$7 billion in sales. Over time, that is \$12.5 billion for stockholders, or \$223 a share.

Now sit down. Alter NRG is developing well-heeled customers/partners around the globe. It added one last week in China and Southeast Asia.

Alter NRG (ANRGF) has been trading around \$1.50. It recently moved up to \$2.05. The Coskata deal could help bring net revenues up from negative 11 cents to about 24 cents a share. If Alter NRG traded for just 15 times earnings of 24 cents a share, it would be a \$3.50 stock. Considering other growth opportunities, \$5 to \$7 might be reasonable.

Short term, the company is focusing on equipment sales to quickly generate cash flow. But they are also looking to future profits, and taking a small equity position in select projects as part of the sales deal.

Long term, Alter NRG will shift to increasing potential profits by taking larger equity positions in attractive projects. They will also begin to process their coal reserves in Fox Creek, Alberta.

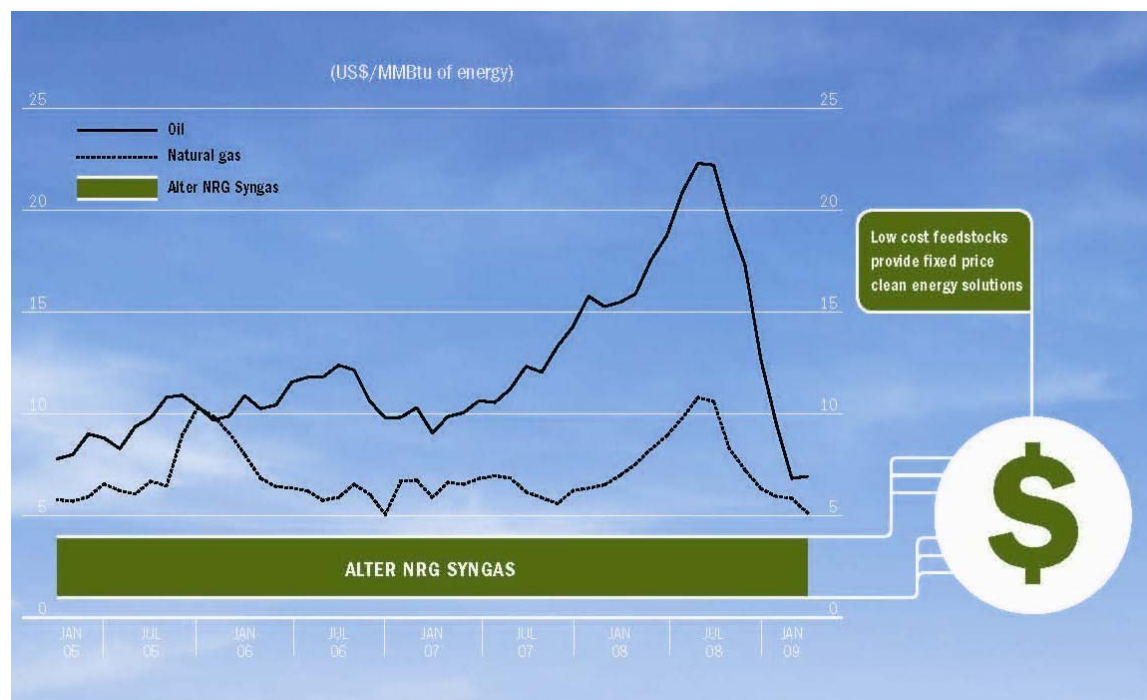
Project value for the first half of Fox Creek is \$3 billion, according to Shannon Sharp, Alter NRG media representative. This is based on processing coal into 20,000 barrels of diesel and naphtha a day. Altogether, Fox Creek has the equivalent of 700 million barrels of oil: 12.5 barrels a share.

Sharp noted that Alter NRG would like to “achieve a value of \$1 per tonne of coal through royalty or sale” on Fox Creek reserves. CEO Mark Montemurro said that this represents more than \$200 million of value to the company. That is yet another \$4 a share.

The company says Fox Creek project has a 50-50 likelihood of moving forward, and is estimated to start in 2015. Given the current energy situation, an earlier start would not be surprising.

Looking at long range revenues, Alter NRG believes that with 10 strong partners/customers, it will supply equipment and engineering for a major project every two to three years. These sales would bring in \$50 million to \$100 million annually.

Alter NRG looks like a stock set to grow quickly now. It might also be a good long-term holding.



Oil and natural gas have been highly volatile, and expensive. Syngas has a steady, low cost range.
Graphic is from the 2008 annual report for Alter NRG.

Disclosure: Robert L. Roach does not own any shares of any security mentioned in this article.

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