

FEATHERSTONE

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GOOD GREEN VALUES

The clean technology sector has taken a bashing but some well-performing companies offer good value for contrarian investors.

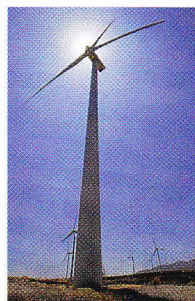
● Listed green energy companies must see red at the lack of investor interest in this sector. *BRW* analysis shows only 17 of the 80 clean technology stocks have risen in the past 12 months, some after heavy falls a year earlier. A sector with so much promise is in a sad state.

It gets worse. The Australian Cleantech index has slumped 60 per cent over three years to May 2011. About \$6 billion, or one-third of the sector's value, has been destroyed since July 2007. As other speculative sectors, such as mining and even biotechnology, rally, the cleantech index is now below its level at the bear-market peak in 2009. Contrarian investors might lick their lips.

Of course it always pays to look behind an index, especially a market-weighted one such as the Australian Cleantech index. Recycling group Sims Metal Management accounts for one-third of the index. Transpacific Industries Group, Crane Group and Silex Systems also stand out by market capitalisation. Small technology stocks mostly make up the rest of the index.

Several factors explain the sector's poor performance. This is hardly a market for small technology companies that are yet to make profit. Why would speculators chase cleantech stocks when all the action has been in junior miners and some biotechs? Fierce debate about a proposed carbon tax and global warming – although highlighting the urgency for clean-energy solutions – adds to regulatory uncertainty. Also, investors may have forgotten about many cleantech stocks.

That is not so overseas. Total global investment in cleantech in 2010 reached \$US243 billion (\$227 billion), up \$US50 billion from the previous record



Left out: Investors have forgotten about clean tech stocks in the rush to join the mining boom

TOP 20 CLEAN TECHS RANKED BY MARKET CAPITALISATION

	Market cap (\$m)	Share price gain/loss over 12 months (%)
Sims Metal Management	3627	-15
Transpacific Industries	1076	-14
Crane Group	821	14
Silex Systems	681	-34
Energy Developments	409	3
Transfield Services Infrastructure Fund	349	-18
Infigen Energy	339	-55
Orocobre	257	2
Galaxy Resources	229	-17
Tox Free Solutions	199	-11
Pacific Energy	149	37
Ceramic Fuel Cells	138	-44
Dyesol	108	-38
Geodynamics	97	-51
Carnegie Wave Energy	94	5
Coffey Environments	91	-58
CMA Corporation	84	0
CBD Energy	77	21
Wasabi Energy	65	58
Quantum Energy	56	-56

Source: Australian CleanTech, *BRW* 12-month price data to April 30, 2011. RedFlow excluded because it does not have 12-month share price performance.

in 2009. Australian cleantech stocks raised a paltry \$974 million and private cleantechs raised \$436.6 million.

A problem for small cleantech stocks may be sophisticated investors investing in private rather than public companies.

There are two approaches to this sector: One is to avoid it altogether, given a shaky sharemarket and no obvious short-term catalyst to re-rate the sector. The other is for contrarian investors, who can tolerate higher risk and have a long-term focus, to build positions.

I asked Australian CleanTech managing director John O'Brien to provide a full list of index constituents and separate performance between different cleantech sub-sectors, such as wind, solar, biofuel, water, waste, energy storage, geothermal and energy services.

The table shows how the 20 largest cleantech stocks that meet Australian CleanTech's definition have fared over 12 months. Biofuels and water were the only sub-sectors with gains.

As to stocks, two recent floats caught my eye: Algae.Tec, which is developing technology to harvest algae as an energy source and RedFlow, which has energy-storage technology.

Algae.Tec is not as far-fetched as it sounds. Its 20¢ issued shares raced to 68¢ after listing in January and are now 38¢. Interest in algae technology is rapidly building overseas. US company

Solazyme raised \$US198 million in a float last month, valuing it at more than \$US1 billion. Solyazyme is many times more advanced than Algae.Tec, which is developing a pilot plant, but its valuation shows the potential.

Shares in Queensland battery technology developer RedFlow rallied from a \$1 issue price in December to \$1.75 and are back at \$1.15. It is hard to see why the price retreated so quickly; a few million shares coming out of escrow, a period imposed by ASX where shares cannot be sold, might explain some weakness. Smaller floats can be better buying after escrow periods expire and those who got pre-float stock at cheaper prices have sold. RedFlow seems to be making good progress on the patent front for technology that helps electricity utilities better store energy and manage peak-demand flows.

BluGlass, AnaeCo, Carbon Polymers, Eden Energy, Pacific Energy and CBD Energy are other cleantech micro-caps I have good feedback on from close sector observers and investors. I have looked only at BluGlass and AnaeCo and will reserve judgement on the rest.

I like the long-term prospects for both companies, although they do not suit risk-averse investors. BluGlass's technology for LED lights and its potential with solar cells is tremendous. **BRW**