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Applied Materials: Here Comes the Sun^{Tuesday}

Alligator Investor submits: Applied Materials manufactures semiconductors and fabrication equipment for the semiconductor industry worldwide. Some predict that these businesses will suffer in 2007 due to a chip glut. That may be true, but Applied Materials is clearly a market leader in this important business. The shares appear to be fairly priced, and the company has some very interesting long-term growth prospects. I own AMAT indirectly through an investment in the Clean Energy ETF (AMEX: [PBW](#) - [News](#)) and I do not plan to buy it in its own right.

Applied Materials is a [former highflier](#) of the 1990s which has come down to earth. AMAT's price to earnings, sales, and book value ratios all compare favorably with the S&P 500, and the P/E ratio of 16 matches the expected earnings growth rate. The dividend yield is rather low at 1.05%, and the beta is high at 1.42, so this is not an investment for the faint-hearted. But an average annual total return of at least 15% appears reasonable based on current fundamentals.

The company looks financially strong and it has little debt.

According to a recent [article](#) in Telegraph.co.uk, AMAT is two years away from a photovoltaic product that will reach the magic level of \$1 a watt, at which solar electricity becomes directly competitive with electricity generated from fossil fuels. Cell conversion efficiency and economies of scale are moving ahead so fast that the cost will be down to 70 cents per watt by 2010, with a target of 30 or 40 cents by 2017.

"We think solar power can provide 20% of all the incremental energy needed worldwide by 2040," said Mike Splinter, chief executive of Applied Materials. "This is a very powerful technology and we're seeing dramatic improvements all the time. It can be used across the entire range from small houses to big buildings and power plants," he said. "The beauty of this is that you can use it in rural areas of India without having to lay down power lines or truck in fuel."

Applied Materials is betting on both of two rival solar technologies: the new thin film panels as well as the traditional crystalline wafer-based cells, which are not as cheap but produce higher yield per surface area. The thin film panels are so light they can be stuck to the side of buildings as well as on their roofs. This material can be mass-produced in long rolls of any color

and easily applied by ordinary construction workers.

The major oil companies are ignoring this development, and electric utility companies don't want to hear about it, but I think that within five years solar power will finally be cheap enough to be practical, even in cold northern regions, and that will mark the beginning of a world-wide solar power boom. Within ten years, I think the cost of photovoltaics will have fallen enough for solar electricity to be much cheaper than electricity from conventional sources. The technology is beginning to proliferate in a parabolic curve, just the way computer chips did in the 1980s and 1990s, and Applied Materials is ideally positioned to profit from this new trend.

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