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# Power surge

With oil prices rising, alternative energy stocks have been on fire. But are they good bets for you?

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By Paul R. La Monica, CNN/Money senior writer

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**NEW YORK (CNN/Money) –** It's human nature: Some people see a bad situation and look for ways to profit from it. After all, greed and fear are the two key emotions that drive stocks.

With that in mind, it should come as no surprise that shares of many alternative-energy firms have soared during the past few weeks. The group includes companies that develop fuel-cell technologies, solar-power cells and microturbines for backup-power generators.

The devastation from Hurricane Katrina and Hurricane Rita in the Gulf of Mexico has helped lift the price of oil and gasoline to near record-high levels. And that has a lot of people both fearful of what can happen if those prices keep rising -- and greedy for the potential profits from so-called "cleaner" energy companies.

Shares of [Capstone Turbine \(Research\)](#) have surged more than 12 percent in the past month. Fuel-cell company [Ballard Power Systems \(Research\)](#) is up 15.5 percent. And [Evergreen Solar \(Research\)](#) has soared nearly 27 percent.

### Short-term hype leads to sky-high prices

But are alternative-energy stocks good bets? It certainly seems like any company that will help lessen the nation's dependence on reliance on oil and gasoline would benefit in the next few years.

Investors have to be careful though.

"A few alternative-energy companies are going after the right markets but that doesn't mean you should go buy every name in the sector," said Sanjay Shrestha, an analyst with First Albany Capital. "Investors need to be cautious about chasing the stocks."

Shrestha said two companies that he likes right now are [Distributed Energy Systems \(Research\)](#), which owns a company that generates electricity from a variety of cleaner energy sources and another unit that makes hydrogen-generation systems, and [Impco Technologies \(Research\)](#), which manufactures fuel-efficient components for internal combustion engines.

Brion Tanous, an analyst with Merriman Curhan Ford & Co., also said there is legitimate long-term interest in alternative-energy companies. Specifically, he points to Evergreen Solar, which develops photovoltaic (PV) cells that convert sunlight into energy, and [Energy Conversion Devices \(Research\)](#), which makes nickel-metal-hydride (NiMH) batteries used in hybrid cars, as well as solar panels.

But he agrees with Shrestha about the need for caution. Even the companies that he likes may be too risky for average investors in the short-term, given their big run-ups. "These companies have already been discovered and people are piling into those stocks," Tanous said.

And he's more skeptical of fuel-cell companies like Ballard since fuel-cell technology is earlier along in its development, particularly when it comes to fuel-cells in cars.

"The strength of the hybrid market is pushing out development of fuel-cell vehicles and as a result, it is too early to get excited about Ballard," Tanous said.



Investors are interested in alternative energy companies that can help lessen the reliance on oil and gas.



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The PowerShares WilderHill Clean Energy Portfolio is an exchange-traded fund (ETF) that may be the safest way to invest in the alternative energy sector.

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Still, another problem for investors is that nearly all of the major alternative-energy pure-play firms are early-stage companies with relatively small, albeit rapidly growing, sales and no history of earnings or expectations of profitability in the near future.

So the prices for these stocks look frothy to say the least. Capstone Turbine, for example, has a market value of \$347 million even though sales are expected to reach just \$24 million next year. So it's trading at 14.5 times estimated revenue. [FuelCell Energy \(Research\)](#) and [Plug Power \(Research\)](#) also trade at price-to-sales multiples in the low-teens.

#### Safer ways to play the trend

As such, one professional investor said that it's smarter to make bets on established firms that are working on alternative-energy solutions.

"We don't play around in the tiny cap stocks that have technology and not much revenue -- the hope stocks. We invest in companies with clear cash-generation plans in place," said Ben Walker, senior portfolio manager with the [Gartmore Global Utilities](#) fund in London.

Walker said that rather than invest in the smaller pure plays, his fund has bought stakes in British water utility Pennon Group, which has a waste-disposal subsidiary that uses methane emissions from trash in landfills to generate electricity, French utility giant [Suez \(Research\)](#), which has a nuclear power unit, and Finnish firm Fortum, which uses hydroelectric power sources.

"A lot of companies are seeing the vast potential of renewable energy and efficient motor vehicles," Walker said.

Finally, there's another safer way for investors that are interested in the concept of alternative energy to bet on the sector. They could buy the [PowerShares WilderHill Clean Energy Portfolio \(Research\)](#), an exchange traded fund (ETF) that tracks the WilderHill Clean Energy Index.

That index is made up of 36 companies in the industry. In addition to many of the more speculative pure-play stocks, the index also includes larger, more diversified companies investing in alternative energy, such as Japanese tech firm [Kyocera \(Research\)](#), utility [Scottish Power \(Research\)](#) and chemicals firms [Air Products \(Research\)](#) and [Praxair \(Research\)](#).

Should you believe the hybrid hype? [Click here.](#)

For CNN/Money's special coverage of how high energy prices affect you, [click here.](#)

*Analysts quoted in this story do not own shares of the companies mentioned. Merriman Curhan Ford has performed investment banking for Evergreen Solar and Energy Conversion Devices. First Albany has done investment banking for Impco Technologies.*

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**Fuel shock** Alternative energy stocks have momentum but most companies are small and unprofitable.

Company	Price ch.*	2006 EPS Est.	2006 Rev. Est.
<a href="#">Energy Conversion Devices</a>	34.7%	-\$0.23	\$142M
<a href="#">Evergreen Solar</a>	26.8%	-\$0.15	\$101M
<a href="#">Impco Technologies</a>	16.5%	\$0.30	\$188M
<a href="#">Ballard Power Systems</a>	15.5%	-\$0.92	\$64M
<a href="#">Capstone Turbine</a>	12.4%	-\$0.50	\$24M
<a href="#">Distributed Energy Systems</a>	11.7%	-\$0.35	\$58M
<a href="#">Medis Technologies</a>	10.2%	-\$0.55	\$8.4M
<a href="#">Hydrogenics</a>	5.9%	-\$0.30	\$56M
<a href="#">Plug Power</a>	5.0%	-\$0.46	\$34M
<a href="#">FuelCell Energy</a>	4.2%	-\$1.40	\$39M

\* for past month through 9/26/05

Source: Thomson/Baseline



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\* - Time reflects local markets trading time.

† - Intraday data is at least 15-minutes delayed.

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