

This Company is About to Clean Up in China

by [Tony Sagami](#) on July 8, 2009 at 8:30 AM

You've heard a lot about the *Cap and Trade* bill working its way through Congress.

I have no doubt that some variation of this *Tax and Kill* legislation will ultimately pass.

And somebody is going to make a bundle by helping companies deal with the new legislation. There may be several winners. One that I particularly like is a small pollution-control company operating in China.

But before I tell you more about it, let me tell how it is about to clean up in China ...

If you're a long-time reader of this column or a subscriber to *Asia Stock Alert*, you've no doubt heard me mention China's horrendous air pollution many times.

In fact, the air is so polluted in China's largest cities that I don't even bother booking hotel rooms above the 10th floor because you can't see anything, and clothes hung out to dry can be covered in soot before they dry.

➡ According to the European Space Agency's indisputable satellite images, China has the planet's worst levels of air pollution.

➡ The World Bank said China is home to 16 of the planet's 20 most air-polluted cities.

➡ A study from the Chinese Academy on Environmental Planning blamed air pollution for 411,000 premature deaths each year from polluted air.

Air pollution is so bad that according to China's own government-controlled numbers, there were 51,000 demonstrations or riots of a hundred or more people protesting the horrible pollution problems.

There are several culprits behind the pollution, such as cars and factories, but the biggest source of the pollution is coal-powered power plants. About 80 percent of China's electricity is generated by coal-powered plants, which translates into some very dirty air.

And a very big opportunity for someone that can help clean up China's polluted air.

The Razor Blade Business Model ...

You want to make a lot of money? Come up with a product that regularly needs replacement parts. That's what Gillette has been doing for decades and is making a bundle selling Mach III razor handles at cost and making profits from a steady stream of high-margin razor blade sales.

Hewlett Packard does the same thing with ink toner cartridges.

And the company I'm talking about that's about to literally and figuratively clean up China sells a desperately needed and highly effective pollution-control system that requires the ongoing purchase of a patented chemical cleaning solvent. Like razor blades, the solvent sales keep coming and coming and coming.

Fuel Tech: A Clean Coal Stock

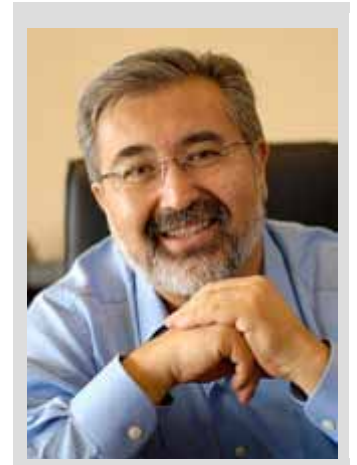
Coal is cheap, abundant, and produces more than 40 percent of the world's electricity, including about 75 percent of China's and more than 50 percent of U.S. fuel. It is a very dirty source of energy though, and governments around the world are focusing on reducing greenhouse gasses.

That's where **Fuel Tech (FTEK)** comes in. Fuel Tech provides boiler optimization, air pollution reduction, and cleaning solutions. In simple terms, Fuel Tech helps coal-powered utilities reduce the amount of pollution they throw into the air and operate more efficiently.

Fuel Tech has two segments:

Nitrogen Oxide (NOx) Reduction Technology. This division cleans the emissions from boilers, incinerators, furnaces and other stationary combustion sources before going into the air. Think of this as the 'chimney' division.

FUEL CHEM Technology. The boilers and furnaces at utilities themselves get clogged with residue (called slag) from the burning process that can foul or corrode the incinerators. Think of this as the 'stove' division.



Three Reasons Fuel Tech Is About to Take Off ...

Reason #1 The Clean Skies Act of 2003: Believe me, there is a lot of green to be made by helping utilities go green. Before this Tax and Kill legislation came the Clean Skies Act required that power utilities reduce its carbon dioxide emissions by 67 percent, mercury by 37 percent, and nitrogen oxide by 25 percent by 2018.

There are 1,500 coal-fired power plants in the U.S. and the Edison Electric Institute estimates that they will spend \$40 billion during the next decade to clean up the air.

How much of that can Fuel Tech grab? That's impossible to tell. But I believe that Fuel Tech could capture 25 percent to 33 percent of them as customers. And since it receives roughly \$1 million in recurring fees from each installed system, its profits and stock price could easily triple by the end of this decade!

That doesn't even include another 1,000 coal plants in China and India, which could easily send the market for Fuel Tech products to \$100 billion.

The year 2018 may sound a long way off, but utility companies aren't going to wait until the last minute to meet the clean air regulations. That means Fuel Tech is going to have more business than it can handle over the next decade.

Reason #2 Fuel Tech helps utilities increase profits: The NOx Reduction Technology division may get all the attention for cleaning the air, but the big reason utility executives want to do business with Fuel Tech is that its other division, FUEL CHEM, helps them make more money!

Making electricity from coal is a dirty business. The process of burning coal at 2,500 degrees Fahrenheit creates a mountain of ash that accumulates into a hard pile of residue called slag that can weigh several tons and grow to the size of a car.

This slag reduces the boiler's efficiency and has to be regularly removed. It isn't easy though because it hardens into a solid rock, and utilities have used everything from shotguns to jackhammers to remove the mess. Neither method works very well. Slag is the operational nightmare of the utility industry.

Fuel Tech has developed a chemical cocktail that looks like Pepto Bismol that reduces slag and is less likely to stick to boiler walls.

Example: Western Farmer's Electric in Paris, Texas, had to shut down its boiler for up to 10 days a year to remove its slag at a cost of \$800,000 per day. Today, the utility pays Fuel Tech \$1 million a year but saves \$4.5 million annually in maintenance costs and increased power production by 5 percent. Talk about a win-win!

If you offer a product that helps businesses make more profits, they will beat a path to your door. And they'll stay your customer forever. Fuel Tech's customers love its slag removal system so much that not a single customer has ever left!

And like Gillette, Fuel Tech is only too happy to keep selling them its slag-cleaning version of razor blades.

Reason #3 A China boom of profits: Fuel Tech has been awarded a \$9.3 million contract for four newly constructed coal-fired plants in Jiangsu Province and another \$2.6 million order for Beijing. More importantly, these orders were from China Huaneng Group, the largest coal-based power generator in China, so you can bet that this is just the tip of the iceberg of Chinese orders for Fuel Tech.

China is opening the equivalent of two coal-fired plants a week and will double its coal consumption within 10 years to 3 billion tons a year. To put that into perspective, the United States uses slightly more than 1 billion tons of coal a year.

Am I suggesting you run out and buy some Fuel Tech shares today? Nope! You need to do your own homework and make your own decisions. But make no mistake about it: Fuel Tech should clean up in China.

Utilities love FUEL CHEM

FUEL CHEM has never lost out in head-to-head competition

FUEL CHEM has never lost a customer

FUEL CHEM has a 100 percent conversion rate of demonstrations to ongoing business