

## This Company Is Cleaning Up in China!

by [Tony Sagami](#) 03-18-08



Two weeks ago, I started telling you about China's horrendous pollution and the great lengths the country's government was going through to clean up before the Beijing Olympics this summer.

I wrote about two companies poised to make a bundle by cleaning up that pollution and mentioned a third that I said might end up being the biggest winner of all. Today, I want to tell you more about that company.

Look, the pollution in China is so bad that clothes hung out on a line can be covered in black soot before they dry. And while there are several culprits behind the pollution, including cars and factories, the biggest source of the pollution is coal-powered power plants.

Currently, about 80% of China's electricity is generated by coal-powered plants, and that translates into some *very* dirty air. It also means big profit potential for ...

### **This Small, Unknown U.S. Company Helping Chinese Power Plants Clean Up Their Act!**

The company's name is Fuel Tech (Nasdaq: FTEK), and it 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 operating divisions:

1. **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.
2. **FUEL CHEM Technology:** Utilities' boilers and furnaces themselves get clogged with residue (called slag) from the burning process that can foul or corrode the incinerators. So think of this as the "stove" division.

As you can see, Fuel Tech has the perfect two-pronged approach to help power producers get more "green." And that means more green for Fuel Tech.

Mind you, it's not just China trying to clean up its act. The environmental movement is sweeping around the globe!

Going forward, there are five reasons why I believe Fuel Tech's profits and stock price will explode ...

#### **Reason #1: The Clean Skies Act of 2003**

By 2018, the Clean Skies Act requires power utilities to reduce their carbon dioxide emissions by 67%, mercury by 37%, and nitrogen oxide by 25%.

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? It's impossible to say for certain, but I believe Fuel Tech could capture 25% to 33% of this market.

That doesn't include another 1,000 coal plants in China and India. Thus, the market for Fuel Tech's products could easily top \$100 billion!

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



*China's air pollution is creating big opportunities for a handful of companies.*

## **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 helps them make *more money*.

See, making electricity from coal is a dirty business. The process of burning coal at 2,500° 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.

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

But Fuel Tech has developed a chemical cocktail that looks like Pepto Bismol. It reduces slag and makes it less likely to stick to the boiler walls.

Want a real-world example of what this product can do?

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 a day. Today, the utility pays Fuel Tech \$1 million a year but saves \$4.5 million annually in maintenance costs, and it increased power production by 5%. Talk about a win-win!

Get this — Fuel Tech's customers love its slag removal system so much that not a single one of them has stopped buying it!

## **Reason #3: Booming business in China!**

As I've been saying, the Chinese are taking serious steps to reduce smog and acid-rain. They are not about to show a dirty face to the rest of the world during the upcoming Olympics. That means good things for Fuel Tech.

The company 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 within ten years it will double its coal consumption to three billion tons annually. To put that into perspective, the U.S. uses slightly more than a billion tons of coal a year.

## **Reason #4: A balance sheet clean enough to eat off of.**

Fuel Tech is sitting on \$1.46 per share of cold, hard cash, and has only \$1.3 million of debt, which works out to a miniscule 2% debt-to-equity ratio.

What's more, out of 22 million shares outstanding, insiders own 25% of the shares while 21% of shares are held by short sellers. Once those China profits start rolling in, those short sellers are going to get the snot squeezed out of them. And that could push up the stock's price in a hurry!

## **Reason #5: Fuel Tech is on sale.**

Fuel Tech zoomed to \$38 during the summer but got clobbered after it reported disappointing results in August. It cited some order delays, higher-than-expected start-up costs at some new contracts, and a decrease in backlogged orders for the weakness.

I think those problems are nothing more than short-term speed bumps because business has been rolling in since then. The company's deputy chairman, Ralph Bailey, seems to agree — he bought 50,000 shares in December and 20,000 more in March.

I've already told my [Asia Stock Alert](#) subscribers to buy Fuel Tech because I think the stock could double by the end of this decade, and my long-term price target is \$100.

Of course, only you can decide if Fuel Tech is right for your portfolio. And even if it's not ...

## **This Is Just One of the Many Opportunities Out There Right Now**

No matter what the broad markets are doing, there will always be niche companies like Fuel Tech that are seeing their businesses explode.

How do you find them? Well, in my book, the key to making stock market profits over the next 10 years is this: Get "long" whatever the Chinese are buying, whether it is oil, natural gas, coal, aluminum, gold, or pollution solutions from companies like Fuel Tech.

*Within a decade, China's coal consumption should double to three billion tons annually.*