

Investors warming to geothermal stocks

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Published: Wednesday, March 05, 2008



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The way Gary Thompson sees it, burning fossil fuels to make electricity is crazy when a huge ball of heat in the Earth's core is capable of doing the same thing naturally.

The chief executive of Sierra Geothermal Power Corp. got involved in geothermal energy eight years ago, and has watched the sector heat up like the water he hopes to suck up from deep underground. The company's 17 projects comprise a total of 88,000 acres of geothermal land assets in Nevada and California.

Long the lesser cousin to clean energies such as biofuels, and wind and solar power, a combination of increased government incentives and improved technology has investment pouring into the sector.

"We're seeing more money trying to get into the space than projects available," said Mr. Thompson during a recent interview in Toronto.

Geothermal power is produced by drilling deep into the Earth's core and piping up the superheated water trapped below. At surface level, the steam released is used to spin giant turbines, creating electricity.

Proponents of geothermal power say its biggest advantage over other clean energy sources is that geothermal plants can run continuously at full output. Wind energy and solar plants are generally half as efficient.

The sector has also benefitted from a host of tax credit schemes in the U.S., and government policy like that in California, which will require 20% of the power that electric companies sell to come from renewable sources by 2010.

There are five geothermal companies listed on Toronto stock exchanges, all with confirmed resources and independent estimates of their potential output.

Sierra Geothermal, Nevada Geothermal Power Inc. (NGP/TSX-V), and Western GeoPower Corp. (WGP/TSX-V) are listed on the TSX Venture Exchange. Polaris Geothermal (GEO/TSX) and U.S. Geothermal Inc. (GTH/TSX) are listed on the main Toronto Stock Exchange.

The largest geothermal company in the world is Or-mat Technologies Inc., (ORA/ NYSE) with a market cap of

almost US\$2-billion. The seventh North American geothermal company is Raser Technologies Inc. (RZ/PCX), which trades on the ArcaEx.

But overall, this sector is still in the early stages of development, and company stocks can rise and fall like steam geysers.

"These are definitely milestone driven stocks," said John McIlveen, research director at Toronto-based Jacobs & Company Securities, which has underwritten much of the financing for Toronto-listed geothermal companies.

The biggest bumps in geothermal stocks come when power generation is achieved, or when a feasibility study is released that says a project can produce enough power to be economically viable.

The inherent risk is that a company could drill a hole with a low power potential. And since drill holes can cost US\$5-million a pop, there is considerable "finding it" risk as Mr. McIlveen calls it.

Of the Canadian listings, Western GeoPower, based in Vancouver, is the only company with a project in Canada. Among its projects, it's developing the geothermal resources at South Meager Creek, about 170 kilometres north of Vancouver. It envisages the site will use dual-flash turbine technology with two standard 55 megawatt (gross) generating units, commonly used at many geothermal projects.

However, of the geothermal plays, Polaris is producing the most power, and earning money from selling the power, although the stock is burdened with a political risk discount, since most of the company's operations are in Nicaragua.

Polaris shares fell 60% at the start of last year when the Nicaraguan government said it would review development rights to one of its properties. The issue has since been resolved, and the stock has regained most of its former value, including a jump on Monday thanks to positive drilling results.

"Nicaragua needs employment and it needs energy," said Alejandro Arguello, vice-president of corporate development in that country for Polaris and former trade minister of Nicaragua.

"The government understands this. They are actively and aggressively supporting private investments."

Valued on the basis of proven resources, Sierra and Polaris are the two cheapest stocks, said Mr. McIlveen. In the latter case, its cheapness reflects investors' unease about Nicaragua.

Sierra, which is yet to produce any power, has a strong project pipeline, which could appeal to investors looking to buy into a geothermal company in the early stages of development.

There is also risks that political winds will shift, and as governments change so will the lucrative tax credit programs that go along with them. But industry executives say the carbon credit business alone holds fantastic potential for the sector.

If carbon credit trading skyrockets as some predict it will, investors may be able to use geothermal companies as a play on that industry.

"We'll make more money on the carbon [credits] than on the power contract," said Mr. Thompson. "We'll make money off something we don't even produce."

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