

Higher risk, but higher rewards

Patience is a virtue when investing in the alternative energy sector

BY RICHARD BLACKWELL

Alternative energy stocks are an irresistible attraction for many investors looking for potentially big returns.

The sector is hot because of widespread concerns over climate change, and because governments are keen to diversify their power sources. Innovative technologies can deliver big profits for those who get in on the ground floor.

But the risks are also huge for anyone buying stock in a TSX Venture Exchange-listed company that has yet to prove it can generate much revenue, let alone earn profits.

So what's the best way to choose a potential winner from the many small Canadian alternative power firms?

"It's difficult for an individual to do due diligence [on these companies]," said David Berkowitz, a partner at Ventures West Management Inc. in Vancouver, who runs the firm's alternative energy investment portfolio.

Instead, someone who wants to buy these kinds of stocks needs to watch what others are doing, he said. "They should be looking for coverage by more than one analyst, they should be looking for quality institutional investors who are already in the story, [and they] should look for signs of customer validation."

John McIlveen, an analyst who follows the renewable power sector for Toronto investment bank Jacob and Co., said investors have to be clear about the risks at each individual company, and should follow its milestones closely.

Firms that specialize in projects — wind or hydro firms for example — often have far less technology risk because they are using processes that are already proven. Still, they can run up against delays in getting government environmental approvals or local permits.

On the other hand, companies developing entirely new systems for generating power, or new twists on old processes, have considerable technological risk in meeting their goals.

In either case, investors must be patient if they want to see substantial returns, Mr. McIlveen added. "These aren't the kinds of things you're in for a quick flip."

Here are three early-stage alternative power companies that have recently gotten positive reviews from analysts covering the sector.



Vancouver-based Finavera has developed a device that generates power from ocean waves.

Arise Technologies

SHARE PRICE, DAILY CLOSE, (APV-TSX) VEN



SOURCE: THOMSON DATASTREAM

Finavera Renewables Inc. (FVR-TSX-V)

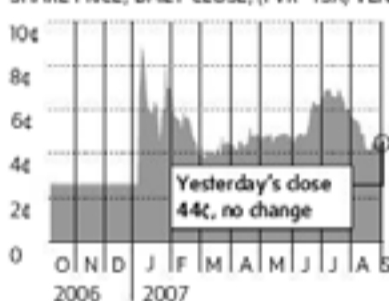
Vancouver-based Finavera has wind farms in development in British Columbia, Alberta and Europe, but its real claim to fame is a new technology for turning energy from ocean waves into electricity.

The company has developed a device called an AquaBuoy, which can be anchored offshore and generates power through hydraulics as it rises and lowers in waves and troughs. The first of these was completed at a plant in Oregon last week and is in the water to be tested off the West Coast.

Analyst Robert Silgado of Dundee Securities Corp. says the bulk of Finavera's valuation, at this point, comes from its wind projects, which are likely to generate revenue long before the wave technology is perfected and commercialized. He rates the stock, now trading in the 46-cent range, as a "market outperform" with a 12-month target of 95 cents.

Finavera Renewables

SHARE PRICE, DAILY CLOSE, (FVR-TSX) VEN



Arise Technologies Corp. (ATV-TSX-V)

This Waterloo, Ont. company sells solar power systems, and recently got a contract for an experimental project to put rooftop units on about 100 houses in Toronto's west end.

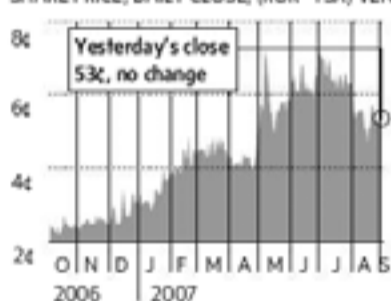
But its future prospects will likely depend on the success of a new solar cell it is developing that is claimed to be much more efficient than existing cells. Arise has broken ground on a manufacturing plant in Germany that is supposed to be manufacturing cells by the second quarter of next year.

Analyst Carolina Vargas of Clarus Securities Inc. said in a report that the new plant will "drive a massive increase in revenues" and help the company generate an operating profit soon after it is up and running. She has a "buy" rating and a 12-month target of \$2.25 on the stock, which now trades in the \$1 range.

Run of River Power Inc. (ROR-TSX-V)

Run of River Power

SHARE PRICE, DAILY CLOSE, (ROR-TSX) VEN



With British Columbia facing a power shortage and keen to build only green generating capacity, companies like Run of River are in the sweet spot, said Alex Harbin of Toll Cross Securities Inc.

Run-of-river projects generate power with less environmental disruption than big hydro plants. They use river water diverted into a pipe, run through a turbine, then returned to the river.

Run of River has one hydro project (on Brandywine Creek near Whistler) already generating power — and revenue — and about a dozen others in development.

Late last month, it diversified into another power sector, buying a biomass company that plans to build wood-fired power plants using logging waste and trees killed by the mountain pine beetle.

Mr. Harbin rates the company, which trades in the 50-cent range, as a "speculative buy" and has a target of \$1.45.