



# INVESTMENT U RESEARCH REPORT: Surging Worldwide Energy Demand to Fuel Coal Profits In 2007... Plus 6 “Runaway” Coal Stocks

by Larry Fein and the *Investment U* Research Team

Investment U | 105 West Monument Street | Baltimore, MD 21201 | 800.992.0205 | www.investmentu.com

Dear Reader,

Based on current production levels, oil reserves will last another 41 years, and gas reserves will last another 65 years. That is, of course, if supplies remain uninterrupted in the Middle East and Russia, which produce 68% of the world’s oil and 67% of the world’s gas.

Coal supplies, on the other hand, are a much different story...

Right now, coal reserves total more than a trillion tons worldwide, which could last almost 155 years. In the U.S., there’s roughly 267 billion tons of recoverable coal – enough to fuel the country’s energy demands for 240 years.

It’s no surprise, then, that profits at the world’s leading coal producers are on fire...

## Another 73% Jump In Consumption On the Way

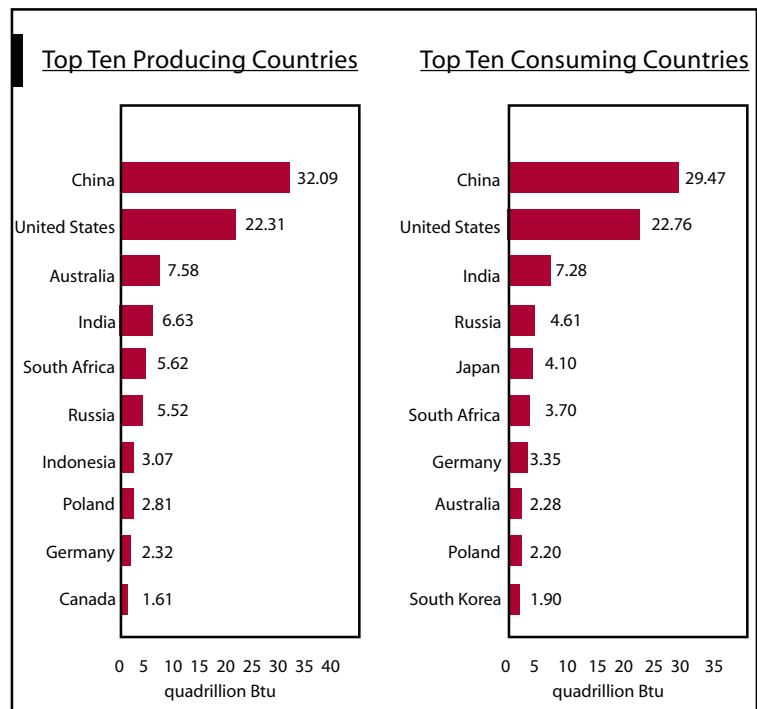
Coal is found on every continent and in over 70 countries – the biggest reserves are in the USA, Russia, China and India.

China and the U.S. already account for over 50% of coal production and consumption. And we’re just getting started...

The U.S. Department of Energy’s Energy Information Administration projects U.S. coal consumption to climb from 1.1 billion short tons in 2004 to 1.9 billion short tons in 2030. **That’s a 73% increase.** And China’s consuming even more...

Last year, coal output was 2.19 billion tons, and this year output is expected to grow to 2.45 billion tons. In fact, **the International Energy Agency predicts by 2020 - China will be responsible for 40% of all coal consumption.**

Coal will no doubt play a major role



in the future of energy. To be sure, it already does...

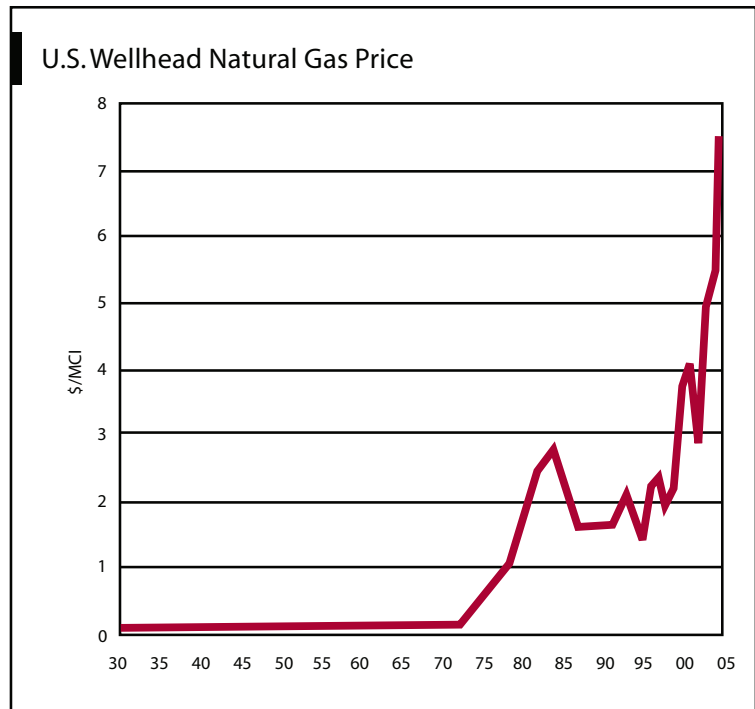
The fuel source generates over 40% of the world's electricity and about 24% of total energy worldwide. And the commodity is making a handful of investors rich...

## Profit From the Coal Train... Before It Runs Away

As reported in the *Houston Chronicle*: "What you're seeing in coal stocks is overall strength... The higher natural gas goes, the more it favors coal," said Ann Kohler, an analyst at Caris & Co.

Indeed, natural gas prices are on the rise. Take a look...

Now, here are some of the major players benefiting from this trend...



## COAL PRODUCERS

- **Anglo American PLC** (Nasdaq: AAUK) is one of the world's largest mining and natural resource groups with operations in Africa, Europe, South and North America, Australia and Asia. Anglo's stock has climbed more than 50% over the last year.
- **CONSOL Energy** (NYSE: CNX) is the largest underground producer of coal in the country, the largest exporter of U.S. coal, and one of the largest U.S. producers of coal bed methane. Shares of CONSOL have gained 29% over the last year.
- **Peabody Energy** (NYSE: BTU) is the world's largest private-sector coal company. Over the last year, shares of Peabody have risen 14.25%.

## TURBINE MANUFACTURERS (equipment that turns coal into electricity)

- **Alstom (Paris Exchange Only - FR:FR0010220475)** a French based company – Alstom is heavily invested in coal-fired steam turbines – this is a major component of their business.
- **General Electric** (NYSE: GE) is a major player in the turbine industry, but clearly this is not their focus, or even close to it.
- **Siemens AG (ADR) (NYSE: SI)**, like GE, is a highly diversified company with seven major business units.

## Coal Liquefaction?

Coal liquefaction turns coal from a solid state into a liquid fuel. This process has been around for a long time, but has never taken off. And it doesn't look like it's going to take off anytime in the immediate future...

Why is coal liquefaction important? There will be less dependence on countries with large oil reserves. Transporting coal in the form of a liquid is cost effective. And it produces lower emissions.

Coal liquefaction is out there, and there are several companies in the process of testing converting coal to liquid (CTL). Indeed, this may be the future for coal... But a plant takes three to five years to build and operate.

And there are risks involved with converting coal to liquid – especially in China. Coal liquefaction uses a lot of water, and many regions of China are already experiencing a critical water shortage.

What's more, not only does CTL use a ton of water, it also creates a big mess: mainly wastewater and gas discharges. And profits from these CTL efforts are tied to the international price of oil, a potentially risky game to play.

Will we see more CTL operations in the future, but it's not a profitable time to invest in the companies focusing on this process. Wait a few years to see if this method takes off.

## The Downside to Coal

China is now the most polluted country on earth...

The country is growing at a record pace, but there's a dark secret behind all that economic success: 80% of that growth is being fueled by dirty coal. It's the primary fuel used for creating electricity and running the factories that are springing up around the country.

As a result, even China's leading cities, including Beijing and Shenzhen, are covered in a blanket of soot. Its hospitals are filling up with patients suffering from coal-induced illnesses like black lung, cancer and emphysema.

On top of that, The Wall Street Journal just reported that Chinese officials estimate that pollution is cutting into the country's GDP by a full 10% each year.

Poor energy inefficiency, expensive clean-up efforts, increased hospitalization and mortality rates... they all create a drag on the economy.

Still, China needs coal and demand will only increase. Investing in stocks based on China's continued need is a good move...

## The U.S. Government Steps In to Clean Up Coal's Act

*"Today I am pleased to announce that the United States will sponsor a \$1 billion, 10-year demonstration project to create the world's first coal-based, zero-emissions electricity and hydrogen power plant..."* ~ **President George W. Bush**, February 27, 2003

**FutureGen Alliance** is a \$1 billion initiative to create the world's first zero-emissions fossil fuel plant. Once operational, it will be the cleanest fossil fuel fired power plant in the world.

Of course, there's money to be made in companies that will build pollution-free coal plants. But the FutureGen Alliance's first plant isn't scheduled to be in operation until 2012.

But keep in mind that all three coal producers mentioned earlier - Anglo American PLC, CONSOL Energy and Peabody Energy – are members of the *FutureGen Alliance*. If *FutureGen* is successful, each of these companies will be a huge part of this success.

In short, coal is fueling 40% of the world's electricity, and individuals can make a lot of money investing

in the companies bringing this energy source to market – both in the near and long term.

Good investing,

Larry Fein and the *Investment U* Research Team

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P.S. China's energy demands are breaking consumption records nearly every day... In fact, the country's torrid economic growth has created the largest supply gap in the history of energy. Government officials have taken steps to meet its future energy needs by signing long-term commodities contracts. And for one company in particular, profits are already beginning to pile up. Read the full report.

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