

● SMALL CAPS

FEATHERSTONE



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LONG-TERM POTENTIAL

Clean Global is one of the more interesting microcap speculative ideas at its current share price.

● Reverse mergers, often a messy business, can obscure prospects for promising small companies. Clean Global Energy is a case in point. Shares in the underground coal gasification company have fallen by more than a third since its merger with International Resource Holdings in October. But Clean Global has an interesting executive team and board for such a tiny company and is worth watching for those investors who are comfortable with high risk.

Clean Global is one of a handful of listed companies targeting the potentially lucrative UCG market. Simply put, instead of mining coal from underground, UCG turns the coal seam's potential energy into syngas. UCG can theoretically extract gas from underground deposits that are too deep to mine; it is also cheaper and cleaner than many other energy sources. But, for all the promise, there was only one commercially operating UCG mine worldwide in 2008.

The best-known UCG stock is Linc Energy, capitalised at \$653 million. Others include Carbon Energy, Cougar Energy and Liberty Resources. Linc soared from less than 50¢ to \$5 in 2007, but has slipped to \$1.40. Carbon Energy shares have more than doubled this year after big falls in 2009. Cougar Energy is also edging higher after losses last year. Shares in Liberty Resources, the smallest UCG stock, have slumped from 24¢ in August to 9¢.

Clean Global's executive chairman and managing director, John Harkins, was a non-executive director of Linc Energy in 2004 and helped steer the company to its sharemarket float in 2006. Harkins resigned from Linc later that year and spent the next two years developing joint ventures for a United States gasification

company before returning to Australia. Scottish-born Harkins has built UCG companies before and investors hope he can do the same with Clean Global.

Harkins teamed with Michael Green, a prominent global UCG expert who led a three-year, €17 million (\$26.5 million) UCG trial in Europe in the 1990s, and is Clean Global's technical director. Green's research formed the basis for Clean Global's technology, which adds a horizontal CRIP pipe to connect the injection and production wells used in UCG. The UCG process pumps compressed oxidants such as air and oxygen down one of two holes to ignite the underground coal and produce syngas, which flows up the second hole and is captured at the surface, purified, and fed into a turbine. The CRIP pipe means the two wells can be further

High energy:
USG produces syngas from coal that is too deep to mine



UNDERGROUND COAL GASIFICATION STOCKS

	ASX Code	Share price \$	52-week low	52-week high	Market capitalisation \$m	One-year total shareholder return%
Linc Energy	LNC	1.40	0.98	2.68	653	12.0
Carbon Energy	CNX	0.54	0.2	0.88	313	114.0
Cougar Energy	CXY	0.09	0.046	0.12	85	86.0
Clean Global Energy	CGV	0.12	0.008	0.25	11	na
Liberty Resources	LBV	0.091	0.024	0.28	12	197.0

Source: AFR.com. Stocks ranked by market capitalisation. One-year total shareholder return unavailable for CGV as it re-listed in October after a one-for-four share consolidation.

apart, in turn lowering costs and giving more control in the UCG process. The technology is a point of difference from other UCG companies.

In addition to Harkins and Green, Clean Global's board includes Domenico Martino, a former chief executive of accounting firm Deloitte; the investment banker Alison Coutts, who has worked on several technology transactions; and the entrepreneur Paul Hubbard. Martino's experience with Asian sharemarket listings may be especially useful for Clean Global.

The company is forming a joint-venture company in Hong Kong for a proposed \$US400 million (\$445 million) UCG project on a 1.8 billion tonne coal deposit in Inner Mongolia owned by Chinese company Guo Xin Mining. The JV wants to raise \$US120 million in equity through a sharemarket float on the Hong Kong Stock Exchange this year, and \$US280 million in debt. Clean Energy holds a 35 per cent controlling interest in the JV and, importantly, should get an early revenue stream from licensing its technology and management expertise. The value of Clean Global's stake in the JV, and the revenue stream from it, is still unknown but its market capitalisation of \$11 million could look conservative.

The company has also been busy developing Australian projects. It is implementing a three-stage, 36-month commercialisation plan for coal tenements in the Bowen, Surat and Galilee coal basins in Queensland. The stage-one drilling program is due to start, possibly giving the company decent news in the first half of 2010. Clean Global has also been developing interests in Victorian coal tenements.

There are plenty of risks in Clean Global and other UCG companies. Still, if one believes in UCG's long-term potential and is willing to punt, Clean Global is among the more interesting illiquid, micro-cap speculative ideas at its current valuation. **BRW**