Motley Fool

Save Energy, Make Money

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By Sam Subramanian

Investors typically see oil-related stocks -- such as **Exxon Mobil** (NYSE: XOM - News) or oil field services giant **Schlumberger** (NYSE: SLB - News) -- as investment vehicles well-suited for profiting from high prices in oil and gas.

But with oil prices hovering above $50 per barrel, the case for profiting from an increased use of energy-conservation technologies is equally powerful. Investment plays in the energy-conservation space are available in all of the major sectors of energy usage -- transportation, industrial, commercial, and residential.

In the transportation space, the appeal of **Honda** and **Toyota**, who make the fuel-efficient Insight and Prius models, respectively, is obvious. So, too, is the appeal of companies such as **Energy Conversion Devices** (Nasdaq: ENER - News), whose nickel-metal hydride batteries have the prospect of being increasingly adopted in hybrid cars. Investors have caught on to shares of Energy Conversion and bid its price up by about 45% over the past year.

Although more than 70% of the energy consumed in the U.S. falls in the industrial, commercial, and residential sectors, not many companies that focus their efforts on improving the energy efficiency in these sectors have received significant investor attention. Investors willing to cast a wider net on energy conservation can find some seasoned yet underappreciated companies in the technology space.

The proven impact: power semiconductors

Chip manufacturers such as **National Semiconductor** (NYSE: NSM - News), **Fairchild**

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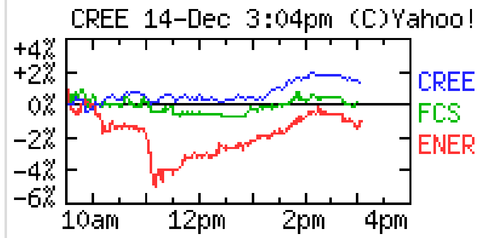

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Semiconductor (NYSE: FCS - News), and **International Rectifier** enable smart power management and contribute to the reduction of fossil fuel consumption.

National Semiconductor, with a 14.1% market share, is the leading supplier of power-management products, while Fairchild Semiconductor generates more than 70% of its annual revenues from its power business. National's PowerWise energy-conservation technology has helped create power-efficient systems that conserve energy and increase the battery life of portable devices. Fairchild's Power Franchise, meanwhile, includes a portfolio of products that convert, control, and condition power to ensure maximum efficiency for a variety of consumer electronic goods, from cell phones to plasma screens.

International Rectifier's iMOTION products reduce energy consumption in appliances that have traditionally not used such power-management technologies, such as washing machines, refrigerators, and air conditioners. Increased adoption of these technologies is estimated to potentially reclaim 10% of energy consumption worldwide. That would save 7 billion barrels of oil per year.

The probable impact: light-emitting diodes
According to the U.S. Department of Energy, general illumination is expected to undergo a major transformation in the next few decades from improvements in solid-state lighting. The 2005 Energy Policy Act, in fact, makes solid-state lighting technology a national priority.

Lifetime ownership costs of light-emitting diodes (LEDs) for general illumination are currently higher than for those of conventional lighting sources. But the combination of greater efficiency, longer durations, and falling LED prices offers the potential that LED lifetime ownership costs will eventually undercut conventional lighting costs. The U.S. Department of Energy (link opens a PDF file) estimates that by 2025, solid-state lighting has the potential to reduce national energy consumption for lighting by 29%, thereby deferring the need for 40 new thousand-megawatt power plants.

Cree (Nasdaq: CREE - News), as the leading U.S. manufacturer of LEDs, is at the center of this lighting revolution. Technological advances at Cree have helped the company demonstrate LEDs offering 100 lumens per watt, a strength that rivals commonly used fluorescent bulbs. By making LEDs more efficient, brighter, and cheaper, Cree seeks to contribute to energy conservation by driving the realm of LEDs from merely lighting cell phones and LCD screens to illuminating streets and parking lots.

The possible impact: leveraging IT
There is significant untapped potential in leveraging the power of information technology to reduce energy consumption. Most of this potential will be brought to fruition as the cost of energy escalates and the price of gathering and transmitting information declines.

New networking and wireless technologies are providing consumers with easy access to information about physical-world factors such as temperature, humidity, light level, and energy consumption. Such data can be used to better manage energy consumption in the industrial and commercial sectors.

Retailers such as **Target** and **Best Buy**, for example, can collect information on temperature, lighting levels, and foot traffic and improve the energy efficiency of their stores accordingly while enhancing their patrons' shopping experience.

Such ideas are not totally futuristic. The basic components of enhanced energy-management systems (link opens a PDF file) are already in place. The automated digital controls for a store's HVAC, lighting, refrigeration, and electrical systems can be linked over the Internet to a single remote operating center that monitors the systems around the

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For example, the Metasys system, from facility management and control company **Johnson Controls**, integrates all of the building equipment in a facility and organizes the information in a logical manner. By working collaboratively with IT companies such as **Cisco Systems**, companies like Johnson Controls can enhance the capabilities of their systems.

Charging up with unappreciated plays

Technology companies tend to sport higher expected growth rates in earnings per share than do auto companies, *and* they tend to be more seasoned than alternative-energy players. And technology stocks, unlike their energy brethren, have not been part of a leading group in the equity market this year. As such, many tech stocks trade at a modest premium to the market price-to-earnings multiple while offering prospects for substantially higher EPS growth. And finally, having been overlooked during the energy rally, such technology stocks may not be as vulnerable as alternative-energy companies could be, should energy prices decline.

While tech stocks may not offer a pure play into energy conservation, some of them do stand to benefit in measurable ways should the energy-conservation theme gain momentum. Investors willing to scout for such companies and get in ahead of the crowd may well prosper. Those preferring to leave the task of security selection to an exchange-traded fund have an option, too. The **PowerShares WilderHill Clean Energy Portfolio** (AMEX: PBW - News), with about 30% of its assets in the technology sector, is ripe for the taking.

In short, investing in energy need not be limited to the sectors most of us instantly think of. If you do some digging, you might just find a wide range of investment options that offer great potential for your portfolio as well as for conservation.

Best Buy is a Motley Fool Stock Advisor recommendation.

Find more information about Fool contributor Sam Subramanian at AlphaProfit Investments. *Sam owns shares in Cree and International Rectifier and looks forward to your feedback via email. The Motley Fool has a disclosure policy.*

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