



Monday, January 12, 2009

## The Blossoming of Nuclear Power

By ROBIN GOLDWYN BLUMENTHAL

*Exelon, Entergy and other nuclear-power giants are set to surge, thanks to the Obama administration's plans for heavy investment in clean energy.*

**THE U.S. STANDS AT A PIVOTAL MOMENT** for the advancement of nuclear energy.

President-elect Barack Obama has put forth a goal to reduce carbon emissions in the U.S. by 80% by 2050, using \$150 billion over 10 years to create a "clean-energy" future. Nuclear plants are the biggest producers of energy that doesn't emit any greenhouse gases.



Scott Pollack for Barron's

Plans are afoot to build 26 nuclear plants. No new plants have been built in the U.S. for 30 years.

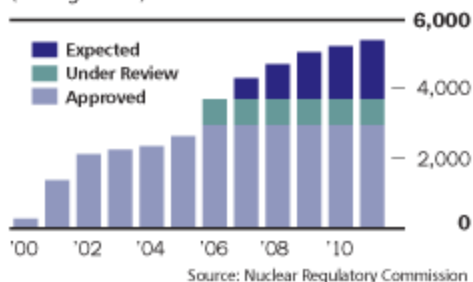
"Nuclear power is in a renaissance," says Tom Neff, a physicist and research affiliate at MIT's Center for International Studies. In fact, 17 applicants are seeking government approval to build 26 nuclear plants, meeting a Dec. 31 deadline for federal tax credits and potentially ending a 30-year hiatus in the construction of new U.S. nuke facilities.

That adds up to a big investment opportunity. Even if it takes 10 years for the first of the new crop to be built -- a distinct possibility -- some of the power companies operating the 104 existing nuclear plants look tempting right now. Their stocks are cheap and their competitive advantages are many. They have lower costs than rivals such as coal-fired facilities, putting them in a better position to ride out the recession. They'll come out much better than the competition if a carbon tax is imposed. And they're better-prepared for the long haul in the new era of nuclear power.

"Owning companies that already own nuclear is the sweet spot for investing in utilities," says Mark Finn, utilities analyst at T. Rowe Price.

Judith Saryan, portfolio manager of [Eaton Vance Dividend Builder Fund \(EVTMX\)](#), which has 30% of the portfolio in high-yielding electric utilities and telecommunications stocks, says integrated utilities like [Exelon](#) (ticker: EXC), the biggest nuclear-power generator in the U.S., and [Entergy](#) (ETR), No. 2 in nukes, operate with great efficiency. The fund owns both.

## U.S. Nuclear Capacity Additions At Existing Facilities (2000-2011) (in Megawatts)



New Orleans-based Entergy, with a market capitalization of \$15.7 billion, trades for a modest 11 times 2009 earnings estimates of \$7.50 a share. Hilliard Lyons has a 12-month price target of \$100, or 25% above the recent stock price of \$80. The stock is down 34% in the past 12 months.

J. Wayne Leonard, Entergy's CEO, who brought the company back from the brink when he joined 10 years ago, says Entergy delivered the highest total shareholder return -- 414.3% -- of any company in its industry for the nine years ended Dec. 31, 2007.

Moreover, Entergy has articulated a goal of reducing its carbon emission to 20% below its 2000 level by the end of this decade. The company, whose operating earnings rose 22% in 2007 to \$5.76 a share, is expected to earn \$6.60 a share for 2008, 15% above the current price.

Chicago-based Exelon, down 36% in the past 12 months, is rated Outperform by Macquarie, which has a price target of \$82 on the shares, some 47% above their current price of 54. The company sees earnings of \$4 to \$4.30 a share in 2009, about flat with 2008. That means the stock trades for about 13 times next year's earnings and yields a hefty 3.8%.

Exelon, with 17 plants, is "cheap relative to future cash flows," says Grant Taber, a vice president and analyst at Westwood Holdings Group in Dallas. He also likes [Southern Co. \(SO\)](#), an integrated utility with nuclear power and a stock that has fallen just 12% in the past 12 months. Southern has "very low relative economic sensitivity," Taber says. With a yield of nearly 5%, Taber calls it a "bond proxy," that has a relatively high return on equity and good relationships with regulators.

### Table: [Low-Cost Energy](#)

Nuclear energy has been gaining ground as safety fears have eased. Exelon and other operators have addressed the problem of nuclear-waste disposal with "dry-cask storage" -- high-tech sealed containers that they keep on their sites. Due to innovations like that, many of the safety concerns that arose after accidents at Three Mile Island in Pennsylvania in 1979 and Chernobyl in Ukraine (then part of the Soviet Union) in 1986 have eased.

"It's safer to work in a nuclear plant than it is in real estate," says Patrick Moore, a scientist and founding member of Greenpeace who began supporting nuclear energy several years ago. He cites data from the U.S. Bureau of Labor Statistics, and notes that a Columbia University study published in 2004, which followed 54,000 nuclear-plant workers for 15 years, found that they had fewer cancers, less disease and lived longer than the average person.

Notwithstanding the increased difficulty of obtaining financing since the credit crisis erupted, Cambridge Energy Research Associates has estimated that the potential for world-wide investment in clean energy, of which nuclear generation is the focal point, will reach \$7 trillion in real 2007 dollars by 2030.

"If you honestly believe that greenhouse gas is the seminal issue of the day, as world population and economic growth continue to expand, so will the need for electric capacity," says Sheila Slocum Hollis, a partner at the Washington law firm of Duane Morris who specializes in energy law. "Whether to power electric vehicles or for general manufacturing needs, ultimately people are looking toward nuclear as the big power source."

**YES, CONCERNS HAVE CROPPED** up about the costs of building new plants, with some estimates putting them at five times the cost of building natural-gas plants. Yet the Nuclear Energy Institute, the industry trade group, maintains that the capital costs become competitive due to nuclear plants' lower operating costs versus gas producers' costs. What's more, cost comparisons with other types of energy producers don't reflect any benefit that nuclear operators might see from carbon credits.

## The Bottom Line

Big, integrated energy providers like Exelon and Entergy are well-positioned for both the short and long term. Entergy's shares could climb by 20% in the next 12 months, one analyst says.

Even Warren Buffett got into the act last fall, with Berkshire Hathaway's Mid-American Energy Holdings investing \$1 billion in [Constellation Energy Group \(CEG\)](#), which has extensive nuclear operations, and proposing to pay \$26.50 a share in cash for the

Baltimore company before losing out to France's **Électricité de France** (EDF.France). It is paying \$4.5 billion to buy half of Constellation's nuclear-generation assets.

Exelon, meanwhile, has made an all-stock offer totaling about \$6 billion, for [NRG Energy](#) (NRG), which last September became the first company to file for a permit in the new round of construction proposals.

"I have seen a sea change in public acceptance of nuclear power," says Slocum Hollis. "People have seen it for 35 years now, and it's working," she says. And perhaps most important, "it has a lot of jobs associated with it in many communities."