Andrew Mickey's
Prudent Investing
Ultimate Growth and Income Service

ACTION ALERT: **April 30, 2009**

Forget Oil, Buy This Instead

Profit from the Biggest Energy Boom *No One* Talks About

Dear *Prudent Investor*,

Forget oil.

Forget solar panels.

Forget wind turbines.

If you can do that (a tall order, I realize) you'll have the chance to double your money in the next few months. And you could be sitting on a lot more over the next couple of years. In this case, 300% or 400% is not out of the question.

Sound unrealistic? Think gains like that are just too much to expect in a market like this?

As you'll soon see, it is realistic. And it is possible in a market like this. Best of all, it can be achieved relatively *safely*.

This is the culmination of a rare combination of events. The type of situation we are always looking for, but rarely come across. In fact, the last time everything came together like this early investors walked away with 706% gains.

We're looking at the makings of something special here. The combination of credit markets freezing up, irrational fear taking hold, a disastrous quarterly earnings report, and classic overreaction by the markets has created this opportunity.

As you'll see in a moment, the upside over the medium term is 80% to 100%.

Long-term…let's just say this stock could *quadruple* without setting a new high.

Proven Technology 42 Years in the Making

That's what we're looking at here. But the thing is. This isn't some alternative energy hippie pipe-dream which only survives off a growing mountain of government subsidies. Not even close. This is a tried and true energy technology which is already changing the global energy landscape.

It's the type of situation only a contrarian could love. But it's the kind of low-risk/high-reward opportunity only prudent investors will get into. It's the very definition of *extreme investing.*

But we're not about to jump into some new-fangled technology that has a 1-in-1,000 shot at becoming the next Microsoft Windows, Facebook, or anything like that. We've got a tried and true energy technology. It has been used for nearly a century. More importantly, it has been *commercially viable* for more than 40 years.

It has held up through the energy bubble and bust of the early 80's. It has held up through the most recent energy bubble and bust. Heck, it's actually growing - fast too. There is more than $100 billion of new money (yes, that's right - $100 billion – even with the credit crisis) flowing into this boom. It's coming from deep pockets of ExxonMobil, Chevron, and most major private and national oil companies.

And, as you'll see in a moment, one company is in perfect position to facilitate this boom.

I'm talking about liquefied natural gas, or LNG.

And the company positioned to capitalize on this boom is **Chicago Bridge & Iron (NYSE:CBI)**.

Note: The company has practically nothing to do with Chicago or bridges and only is slightly related to iron.

LNG 101 – The Basics

First though, I want to ensure you understand what LNG is and how it's made.

LNG is natural gas which has been chilled to the point that it becomes a liquid. In liquid form, it's pumped onto specialized LNG tankers and shipped all over the world.

The LNG delivery process is pretty basic as well. Natural gas is first pumped out of the ground. Then it is transported to a *liquefaction* plant. There the natural gas is turned into liquid form (hence the term: liquefaction). It's then shipped to one of the dozens of *regasification* plants around the world. There it is turned back into a gas and sent via pipeline to the end user.

The end result of this boom will make natural gas a truly global commodity. That's a huge change for natural gas. It has never been a global commodity before. But now that's starting to change as well.

New Frontiers for Natural Gas

Before the downturn, natural gas prices were different in every major market. Natural gas prices peaked in North America around $14 per Mcf last summer. They hung around the $6 to $10 range leading up to the summer bubble. European countries like England and Spain had to fork over $10 to $15 per Mcf.

Japan and China were paying $15 to $22 per Mcf of natural gas.

That's a pretty wide range of prices for a commodity when you consider a pound of copper, an ounce of gold, and a barrel of oil are pretty much the same price around the world.

The reason natural gas prices varied so greatly was because it was consumed primarily on the continent that produced it. That's all starting to change…rapidly.

Pipelines used to be the only way to transport natural gas. Now, with the growth of LNG, ships can carry it anywhere in the world. Natural gas is becoming a truly global commodity and the implications will be big.

That means natural gas demand from India and China will have an impact on prices in North America, and vice versa. As the LNG market matures, we could see global natural gas prices rise a good bit higher. That's over the long-term though. Over the short-term, there is a much different story.

The Tide is Turning

Frankly, it's no secret the LNG boom is coming. The world is actually facing a glut of capacity in a few parts of the LNG process. There are currently too many LNG tankers floating around the ocean. And there are too many regasification plants. In fact, there are some regasification plants which sit idle for months at a time because there is no LNG to regasify.

That's why most investors just gloss right over LNG. They see all that capacity already been built up and think there's no opportunity here, there's already too much. And they're *partially* right. I mean *partially* because there is one big opportunity in LNG and that's with the liquefaction plant.

Think about it like this. There are dozens and dozens of underutilized regasification plants. There are too many LNG tankers. There are billions of dollars tied up in these and they're barely used. By just building a few more liquefaction plants, the whole system would fall much closer to a balance where these expensive assets could be used to generate cash.

And the big money has realized the opportunity in the LNG industry too. Despite the credit crunch, we're seeing some major financing deals getting cut to build liquefaction plants.

In recent months we've seen a few major financing deals have been arranged. The largest is for an LNG project just off the coast of Australia. The massive project is slated to run through a budget of about $20 billion.

Another large project is for a massive LNG project in Papua New Guinea. The "PNG LNG" project is expected to cost about $11 billion. And with the deep pockets of ExxonMobil backing the deal, getting all the money together won't be a problem.

These are just two of the major liquefaction centers about to break ground and there are plenty more. As you can see the price tag is pretty high, but with the large growth in LNG and excess capacity built up on the other end of the cycle, it'd be tough to go wrong building up more liquefaction capacity.

That's why I consider the key to unlocking the LNG boom is in building more liquefaction plants.

Who builds liquefaction plants? You guessed it, Chicago Bridge & Iron, or CBI.

The LNG Boom: Sam Brannan Style

When it comes to any sector facing a growth trajectory like we're seeing in LNG, I always like to look at the "picks and shovels." The picks and shovels are the companies which make the products which facilitate the boom.

The master of the picks and shovels strategy is Sam Brannan. Brannan was the man credited with publicizing the gold discovery by Sutter's Mill in California. He owned the general store adjacent to the gold discovery and played a critical role in kicking off the California Gold Rush.

Of course, Brannan's success was virtually assured. Brannan made his fortune by selling picks, shovels, pans, and everything else to the wave of prospectors moving to California hoping to strike it rich. We know most prospectors went broke. Brannan, on the other hand, was the richest man in California at one point. He did it all by selling the picks and shovels.

The picks and shovels strategy is the safest way to get into a sector without having to sacrifice the upside. There are dozens of other examples throughout history.

Think of oil service stocks leading up to the oil bubble, mining equipment makers leading into the mining boom, tractor and farm equipment companies in the agri-boom, and on and on.

All of these sectors did exceptionally well without carrying all the risk of a mining company or an oil exploration company. They were selling the picks and shovels so to speak. Some of the oil companies were going to make big strikes. Most weren't. But those who owned the drills and exploration equipment were in high demand and got rich regardless of whether they struck oil or not.

That's why I've always loved the picks and shovels approach. And CBI builds and sells highly specialized picks and shovels for the LNG boom. In fact, CBI is focused pretty closely on LNG as you can see in the table below:

Chicago Bridge & Iron Revenue Breakdown ($ thousands)			
Market Sector	**2008**	**2007**	**2006**
Liquefied Natural Gas	*2,630*	*2,396*	*1,390*
Energy Process	1,642	970	1,039
Steel Plate Structures	1,233	955	695
Lumus Technology	438	41	-
Total	**5,944**	**4,363**	**3,125**
Source: CBI Annual Report			

As you can see, CBI's revenues from LNG nearly doubled between 2006 and 2008.

But here's the thing. The market is currently expecting CBI's revenues to collapse going forward.

The prevailing wisdom is: The energy boom is on a break. Energy companies are cutting back on investments. It's not nearly as good of a time to be in the energy infrastructure business as it was a year ago.

But for three big reason LNG is a bit different:

1.Lead times are long *– takes a minimum of five years to build a liquefaction plant*

2. Capital costs are high *– again it takes at least $5 billion to build an LNG plant*

3. Economics and geography *– LNG projects in places like Australia and Papua New Guinea take otherwise worthless natural gas and turn it into something which can be shipped to a market where it can be easily used.*

The one final factor to consider is the customers for LNG plants. They're small oil companies with just enough money to drill one hole and hope and pray they strike oil. CBI's customers are the cream of the crop and have some of the deepest pockets in the world. CBI's LNG customers include CNOOC, ExxonMobil, Qatar Petroleum, and Woodside Petroleum just to name a few.

These companies, after a long energy boom, are sitting on mountains of cash. And they're moving ahead with their investment plans. We can see the impact of this in CBI's backorder log.

The Waiting Line Gets Longer and Longer

A company's backorder log is critical – especially in times like these.

It shows how much demand there is for a company's products or services. If the line is getting longer (i.e. – backorder log is growing), it's easy to see a company's products are in high demand. High demand leads to consistent revenue growth and strong margins.

A backorder log is a very good thing and that's just another reason to like CBI. Its backorder log sits at $5.68 billion. Considering CBI brought in under $6 billion in 2009, CBI has a lot of orders and contracts to work through.

This downturn is actually a blessing in disguise for CBI. While other oil service companies have taken a beating during the downturn, it's creating an opportunity for CBI. This downturn will give CBI a chance to catch up on its backlog.

By now you can see, CBI is in great position to capitalize on the ongoing LNG boom. Its financials are in order and it's growing in all the right spots. As we've seen many times before, a great company isn't always a great stock to buy though. As you'll see in a moment, now is the time to buy CBI.

The Perfect Chart

There is a lot to be said for charts. Some traders and live and die by them. Other people use them to try and time the markets. Charts are used with varying success by all kinds of investors. I, however, have

only ever found one chart pattern which pays off consistently. And the picture perfect example is CBI's current chart:

Now, I don't look at all kinds of technical indicators. I try and look through the chart patterns to what's actually going.

As you can see in this chart, CBI has had a worse year than the overall markets. CBI's shares are off more than 80% from their 2008 highs. The decline is not much of a surprise given its exposure to the oil service sector. Everything changed earlier this year.

Throughout the second half of 2008 and into 2009, CBI was in the process of what I call, "Hiring New Shareholders."

Investors who wanted out of CBI got out. Investors who wanted in got in. It's a churning process which can take a while. In some cases, it can take years. Just think of how long it took for the major tech stocks to rebound after the bubble burst.

In this case, since the downturn was so sharp, it didn't take long for CBI to get new shareholders. The process was accelerated in late February when CBI announced problems with one of its projects. CBI gave the market the bad news at the same time it reported dismal quarterly results.

If you look at the chart in late February (highlighted by the red circles) you can see a sharp downtick in price as well as a spike in volume. This is capitulation. The capitulation shook out the last of the weak shareholders and left only new ones to survive.

This is the best time to invest in a situation like this. Shares have been beaten down hard, all of the sellers who wanted to sell are out, and the share price has started to rise.

It's at this point where the downside risk is lowest and the upside potential is highest. Shares of CBI are on the rise and the potential over the long run is limitless. Of course, we're not about to find a great company, reasonably valued stock, and hold on tight. We're *Prudent Investors* and we're going to make a

plan before we go in and stick to it.

The Plan

We need to construct a plan which allows us to take advantage of all the upside potential without “risking it all” in case this stock heads against us.

That’s why I’m recommending buying shares of CBI at market price with a 25% trailing stop loss.

Basically, I think there is serious potential for CBI shares to climb to $15 to $18 over the next three to six months. Over the long-term, considering the growth in LNG and increasing demand for energy resources worldwide, CBI’s shares could go back to their $40 to $50 highs. That, to be quite honest, is most likely years away.

On the downside though, with a 25% trailing stop loss in place, that’s the max we’re risking.

So we’re risking 25% to make up to 75% in the short-term and possibly much, much more in the next two to three years. That’s basically a 3-to-1 risk/reward ratio for the near-term (the minimum ratio we expect when putting capital on the line).

Action to Take

Right now, CBI is in the right position to move in.

- Shares have been beaten down
- It capitulated on bad news (read: hit rock bottom)
- Expectations are low so it’ll take disastrous news to send CBI’s share lower
- The LNG industry is only getting bigger
- The upside potential over the short and long term outweigh the risks
- And a new uptrend has begun

Buy shares of Chicago Bridge & Iron (NYSE:CBI) under $11 per share. Set your trailing stop at 25% (if you don’t have a trailing stop – I will remind you via e-mail if it gets tripped).

Let’s start to pick away at the opportunities which are still out there.

Good investing

Andrew

Disclosure: For any new readers, you should know we eat our own cooking here, so to speak. I put my money on the line too. So, yes, I do own shares of Chicago Bridge & Iron and my plan is the plan I recommended here as well. That's the only fair way to do it as far as I'm concerned.

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