Taking Stock: Something not natural about synthetic oil firm

by Malcolm_Berko

Dear Mr. Berko: Please tell me about Sasol, which is a synthetic oil and gas producer in South Africa. Do synthetic diesel, airplane fuel and gas really work? Can we use it in the U.S.? Where did they get this process and how come we don't use it reduce the cost we have to pay? Is their process too expensive? And is it true that Sasol developed this process to make fuel for the Germans to use in World War II? Do you think this stock is a good investment for a conservative person? I'd like to buy $20,000 of the stock.

J.W.

Detroit

Dear J.W.: Wow, that's a barrel of questions! But before I discuss Sasol we need background.

Inarguably among the most serious threats to the economic, social and political safety of this country is its dependence on imported oil. Since the oil crisis of 1973, many people are astonished that Congress and the White House have done nothing to ameliorate the problem. However there is a super solution called "coal hydrogenation," developed by Standard Oil of New Jersey (now Exxon Mobil Corp.) in 1930. It's a simple process and the resulting fuels cost much less than the fuels produced by Big Oil. In fact, those fuels are not an atomic particle less efficient than the same product produced from a barrel of oil.

But Exxon, Shell and the other Big Oils have billions of dollars of vested interests in oil properties, infrastructure equipment, etc., and "hydrogenation" would give Big Oil lethal gas pains. So to protect their vested interests, the oils covertly purchased influence from Congress (which is easy) to keep "coal hydrogenation" as far from the U.S. as possible.

Recently a close acquaintance, a Congressional representative whose vote is not for sale, told me that "active support for coal hydrogenation could cause me personal and political damage. Those oil companies are seriously nasty."

In 1934 about 85 percent of Germany's oil was imported and the German Reich needed oil independence to fuel its factories and war machinery. The solution used by the Nazis was a process developed in the U.S. by Standard Oil of New Jersey. It is called "coal hydrogenation" and because Germany had immense coal deposits, its supply of fuel, and lubricants was almost unlimited. Between 1934 and 1942, Standard Oil financed and guided Germany's hydrogenation process, producing the synthetic fuels that powered Germany's formidable war machines across Europe, Africa and Russia. Undeniably, without Standard Oil's hydrogenation process, Germany could not have commenced World War II.

Back then, Standard Oil of New Jersey had enough congressmen on its private payroll to do anything it wanted to do. As a result, the actions of its officers and its board of directors nearly caused the Allies to lose World War II while their avarice and venality cost thousands of American lives. It is clearly documented that in the hubris of their success, Standard Oil made substantial contributions to German SS chief Heinrich Himmler's personal fund and as late as 1944 was an active member of Himmler's "Circle of Friends." So don't for a nanosecond believe that gas prices at today's pump are due to the high cost of a barrel of oil.

Greed knows neither honor nor conscience. Exxon Mobil, Chevron, ConocoPhillips, Texaco, Marathon, etc., prefer to drill for oil, process and sell products at wallet-breaking prices rather than assist America in finding a dependable alternative. So clearly the prime directive of the Oils is to protect their vested interests because they have big money at risk. The U.S. has the largest coal reserves in the world and the Oils don't make a shekel or centime if fuel is produced by hydrogenation. And their attitude is unvarnished, cupidity at the expense of the consumer. Meanwhile, the company that you seek is headquartered in Rosebank, South Africa - it's called Sasol Ltd. (SSL-$35.55) and trades on the New York Stock Exchange.

SSL had $11 billion in revenues last year and earned $2.29 a share. SSL uses their improved version of the old Nazi hydrogenation process to produce hundreds of millions of gallons of synthetic fuel from coal at the equivalent oil cost of a barrel. SSL has also developed a very cost efficient process that produces liquid fuels from natural gas. And SSL retails gasoline, diesel, jet fuels, liquefied petroleum gas and lubricants through its network of service stations. During the last 52 weeks SSL traded between $46 and $28 and the 87-cent dividend yields 2.4 percent. However, for reasons that have more to do with gut feeling than logic, I'm not a SSL enthusiast.

Net profit margins exceed 21 percent, return on equity exceeds 27 percent and its book value of $13.65 has grown in each of the last 10 years. SSL has $1.5 billion in cash, $2.5 billion in debt and 630 million shares out. Bear Stearns ranks SSL as "outperform," while Zacks and Prudential have a "strong buy" on the stock. The suits on the Street believe that SSL's income should grow at a 12 percent annual rate; I feel they're too sanguine.

Aficionados believe that SSL could trade at $47 in the next 12 months and run higher if oil exceeds $75 a barrel. SSL may have good short-term potential and may have steady long-term appreciation in price and dividend. And I'd be comfortable owning 300 shares (not 600) at the current price even though I do not have a high opinion of management. Meanwhile, you might ask your member of Congress why he/she doesn't encourage hydrogenation.

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