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IPO REPORT: Ethanol Going-Public Deals Dry Up As Fuel Price Falls

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By Steve Gelsi

NEW YORK (Dow Jones) -- Public-stock offerings from ASAlliances Biofuels and Agassiz Energy LLC have been pulled as the ethanol sector continues to struggle with high corn prices and distribution hurdles, but deal makers in the sector see some possible bright signs on the horizon.

Agassiz Energy has delayed its $58.5 million IPO as it moved back plans to build an ethanol plant near Erskine, Minn. In a release on its Web site, the company cited a drop in ethanol prices to $1.50 a gallon, down from more than $2 over the summer.

And Dallas-based ASAlliance Biofuels formally pulled its $300 million IPO this week, after it was sold to VeraSun Energy (VSE) for about $725 million over the summer.

The moves comes as shares of publicly traded ethanol companies such as VeraSun, Aventine Renewable (AVR) , US Bioenergy (USBE) and Pacific Ethanol (PEIX) stand near their respective 52-week lows.

Dan Pullman, a principal with investment-banking boutique McNamee Lawrence & Co., said it's no surprise that the ethanol IPOs have dried up, in light of recent moves throughout the biofuels industry to scale back plant expansion.

One pitfall for ethanol stems from its water component, which renders the fuel harmful to metal pipelines normally used to transport petroleum products.

Moreover, most ethanol gets moved via truck or rail, and pipeline companies such as Williams Cos. (WMB) have been reluctant to make the investment needed to build networks that could carry ethanol to market, **Pullman said.**

"If you build an ethanol pipe, it can cost $2 million a mile," **Pullman said.** "It's a heavy investment that requires steady use to recover it. There needs to be a significant increase in volumes to justify it. There will have to be some inspiration by government in the form of tax credits to motivate pipeline builders, otherwise the risk is too high."

Demand for the fuel is also peaking as ethanol reaches saturation in the federally mandated program to replace the gasoline additive MBTE, **he said.**

Other setbacks include a lack of fueling stations in the U.S. for retail sales, and a rising cost of construction for new ethanol plants.

Business model still makes sense

Even with these problems, ethanol remains viable as an alternative fuel, but it'll take additional subsidies or a requirement to increase the blend of ethanol in the gasoline supply to help the biofuel business grow, **Pullman said.**

Chemical additives to reduce the corrosive nature of ethanol could hold some promise for the industry, but it'll still take several months more of research to know if they'll do the job effectively, **he said.**

Dan Rogers, a partner in law firm King & Spalding's energy and global transactions practice group, said the tougher times faced by ethanol plays will result in more consolidation.

"My bet would be that some of the stronger public players, as well as some of the stronger private equity-backed players, will look to buy up some of the smaller non-public companies that may not have the financial resources or hedging capabilities to survive the recent market volatility," Rogers said.

"For now, my guess is that some of the bigger public companies may actually be in the best position to get through the near-term troubles. At the same time, now does not appear to be a good time for launching a new ethanol IPO."