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Clean Energy

Introducing the Global Model Clean Energy Portfolio

Global Clean Energy Team unveils model portfolio: We believe our E^4 growth drivers (emergence, economics, energy security, and environment) will generate significant investment in clean energy solutions by governments, businesses, and consumers worldwide. Since clean energy is a global opportunity, we recommend a portfolio approach across multiple segments and regions and have launched the Morgan Stanley Global Clean Energy Model Portfolio today representing our global analysts' best ideas worldwide.

We favor companies/products best positioned for the long term: We recommend investors be selective and play only the highest-quality names that will benefit the most from the strong tailwinds driving the clean energy industry. We use four criteria to screen investment opportunities: scalable, low cost, low carbon and secure.

North America, Europe, and Asia equities included: The 8 stocks included in the portfolio (Exhibit 1 inside) represent the best investments ideas from our global analysts and range across the major business segments in the clean energy industry.

Expect volatility: Despite our long-term optimism, we advise investors to be agile in the face of intense volatility and wary of near-term risks as markets right-size and experience growing pains. The volatility of these stocks changes the risk/reward on a daily basis so we take a long-term view in making stock selections and assigning ratings.

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For analyst certification and other important disclosures, refer to the Disclosure Section.

Morgan Stanly Global Clean Energy Model Portfolio

We are introducing the Morgan Stanley Global Clean Energy Model Portfolio. The portfolio contains the best stock ideas from Morgan Stanley's Global Clean Energy team. Through this portfolio, we hope to identify the most attractive investment opportunities in the global clean energy business. The portfolio contains 8 equities with stocks from North America, Europe, and Asia.

As we state in our companion initiation of coverage report on the US clean energy industry (see *Sustainable Opportunities,* October 16, 2007), we recommend building a core portfolio of leading companies across multiple segments and regions rather than trying to select only one or two companies. Based on the upside potential, we bet that clean energy stocks will rarely, if ever, seem cheap on a near-term basis. As with any high-growth/high-multiple industry, we favor companies and products that are best positioned for the long term, with management teams that can negotiate the volatility ahead.

Portfolio Objective and Investment Philosophy

Long-term return objective. This portfolio will contain our team's "best ideas" from around the world. The investment ideas in this portfolio derive from the team's proprietary research insights and bottom-up analysis, including ModelWare forecasts and open platform scenario analysis. In addition to company fundamentals and valuation, each company must score well against our screening criteria (scalable, low cost, low carbon, secure) to be considered.

The portfolio has a flexible time horizon but will be biased toward long-term investments rather than short-term trading calls. Individual analysts recommend positions, and these recommendations are subjected to a group vetting process before being added to the portfolio.

Qualifying segments. The clean energy product set is quite broad, encompassing a variety of power and transportation technologies that allow the world to grow in an economically and environmentally sustainable manner. The current focus of our Clean Energy Model Portfolio includes the following key solutions:

- biofuels
- efficiency
- emission reduction
- geothermal
- solar
- wind
- emerging technologies

Among these segments, we currently favor solar and wind; they represent the best opportunities that we see in the global trend of becoming more "green." We believe that the "green" trend – and specifically clean energy – is one of the best trends available to investors. Clean energy is likely to be a long-term trend, with plenty of innovations still on the horizon. Even within the next few years, we expect the current technologies to evolve quickly – and many new technologies to enter the market.

Exhibit 1
Morgan Stanley Global Clean Energy Portfolio

Company	Ticker	Rating	10/15/07 Price	Target Price	Sector	Lead Analyst
First Solar	FSLR	O-V	$134.95	$175.00	Solar - US	David Edwards
Motech	6244-TW	O-V	NT$340.0	NT$387.0	Solar - Asia	Max Lee
SunPower Corp.	SPWR	O-V	$90.57	$110.00	Solar - US	David Edwards
ReneSola	SOLA-LON	O-V	£3.16	£3.96	Solar - Asia	Max Lee
Gamesa Corporacion Tecnologica	GAM-ES	O	€ 31.41	€ 33.00	Wind - Europe	Luciano Diana
Taewoong Co. Ltd.	044490-KR	O	103,000	130,000	Wind - Asia	Shawn Kim
VeraSun Energy Corp.	VSE	O-V	$11.59	$13.00	Biofuels - US	David Wilson
Fuel Tech Inc.	FTEK	O-V	$28.99	$35.00	Emission Reduction - US	David Edwards

Source: FactSet, Morgan Stanley Research Estimates.

With our focus on identifying the highest-quality products that satisfy our investment criteria — scalable, low cost, low carbon, secure — the solar and wind industries appear better positioned currently. Consequently, 75% of our model portfolio is comprised of companies from these segments. Please see our companion report, *Sustainable Opportunities,* for more detail on all clean energy segments.

Geographically diverse. We believe that a global approach is essential when investing in the clean energy industry. Consequently, our portfolio is geographically diverse, with 50% of the portfolio located in the US, 38% in Asia, and 12% in Europe. Currently, our country weightings are more reflective of our conviction surrounding individual stocks rather than where those companies are domiciled.

Expect Volatility

We recommend four principles to follow with investing in clean energy. The volatility of these stocks changes the risk/reward on a daily basis, so we take a long-term view in making stock selections and assigning ratings.

Here are our four guiding principles for investors:

- *Be selective* and play only the highest-quality names.
- *Be agile* as the volatility is intense.
- *Be wary* of near-term risks as the markets right-size
- *Be long-term* and focus on the big picture.

We fully expect the performance of the Morgan Stanley Global Clean Energy Model portfolio to be volatile. This is evident in that 75% of the stocks in the model portfolio have a V notation, which means the stock is more volatile. We estimate that these stocks have more than a 25% chance of a price move (up or down) of more than 25% in a month, based on a quantitative assessment of historical data — or that, in the analyst's view, they are likely to become materially more volatile over the next 1–12 months compared with the past three years. Stocks with less than one year of trading history are automatically rated as more volatile (unless otherwise noted). We note that securities that we do not currently consider "volatile" can still perform in that manner.

Summary of Positions

First Solar (FSLE, Overweight-V/Attractive)
Coverage: David Edwards
First Solar has been the darling of the solar industry, with the stock appreciating significantly since its IPO in November. Despite such meaningful performance, we remain positive on the company's long-term prospects, especially given its low manufacturing cost per watt, high gross margins, and significant pre-sold capacity.

Management has consistently outperformed expectations and has rewarded investors with capacity expansion and long-term sales contract announcements. Because of management's adept navigation, growth prospects for the industry at large (and thin film specifically), and promising roadmap to grid parity pricing, we have increasing confidence that First Solar will perform toward our bull case, offering investors upside potential from here.

ReneSola (SOLA-LN, Overweight-V/Attractive)
Coverage: Max Lee
ReneSola is the second-largest wafer manufacture in Asia. The company has developed scrap silicon recycling technologies that allow it to secure enough polysilicon feedstock to support its aggressive production plans at reasonable price. The company has recently invested in a polysilicon manufacturing joint venture (JV) with 750MT of capacity expected by end of 2008. We see this as long-term positive for the company in terms of better raw material visibility and access to upstream manufacturing.

In the near term, we expect the company to grow its earnings by 41% sequentially in 3Q07 and 77% in 4Q07. Moreover, we expect EPS growth of 46% for full-year 2008. The stock is now trading at 14x 2008E P/E, a significant discount to the peer average P/E. We believe the share price correction is overdone and see substantial upside potential from current levels.

Motech (6244-TW, Overweight/Attractive)
Coverage: Max Lee
Motech is the largest PV cell maker in Taiwan, with capacity of 330MW by end of 2007. The company has adopted the upstream strategy by developing in-house wafer manufacturing capacity and investing in a polysilicon JV. We believe this will be value-accretive to Motech when the vertical integration starts to bear fruit in 2H08.

In terms of near-term catalysts, we expect Motech's gross margin to improve by 200 bps in 3Q07 and an additional 100 bps in 4Q07, driven by stabilization in ASP due to strong end-market demand in Europe and improvement in wafer and cell quality. This, together with securing of additional raw materials in the next few months, is likely to drive the share price outperformance.

SunPower (SPWR, Overweight-V/Attractive)
Coverage: David Edwards
SunPower is head and shoulders above the competition, in our opinion, when it comes to efficiency: Its module conversion is hovering at 20%, yielding 50% more power per square meter than conventional silicon based modules. As the solar industry matures, we feel the focus will shift from price per watt of the module to price per kWh of the system. Consequently, SunPower's high-efficiency product offers substantial opportunity to reduce balance of system costs, both through labor and material savings.

Additionally, the company has increased its vertical integration via an acquisition of a large-scale commercial installer, which allows for end-customer contact and the ability to significantly reduce installed system costs. This strategy should garner margins along all segments of the value chain. We feel the market does not fully appreciate the benefits of the company's high-efficiency modules or vertical integration, and we are therefore bullish on the stocks long-term prospects.

Gamesa (GAM-ES, Overweight/No Industry View)
Coverage: Luciano Diana
Gamesa is a global wind turbine manufacturer and developer of wind farms. Its business model is one of the few in the industry to be integrated both upstream and downstream, and we think this makes it defensible and attractive. Upstream integration protects the company from severe shortages in components supply that affect most other manufacturers, while downstream integration (in wind farm sales) gives visibility over turbine sales and allows for long-term framework agreements.

The company offers a reliable technology and a solid product offering. It is establishing a global industrial footprint in the US and in Asia which will position it to gain global market share and to capture growth from key markets such as the US and China. We argue that Gamesa looks undervalued compared to the rest of the industry, and that the market underestimates the value of downstream integration.

Taewoong (044490-KR, Overweight/Attractive)
Coverage: Shawn Kim
We believe Taewoong is the best-positioned company to win new component orders in the US$23 billion wind turbine market near term, given its proven and operational leadership in rotor main shaft components. Taewoong is the only player able to sell directly to GE Wind and Vestas, and its premium portfolio of order intake and strong execution allow premium growth rates and returns. Taewoong still has many margin expansion levers to pull. Focus areas include huge scale and manufacturing efficiencies, product mix shift and cost synergies from upstream integration. These initiatives, coupled with Taewoong's strong pricing power, should mean that 20% margins and 50% ROIC are well within reach (13% and 30% in 2006)

We expect profits to rise 55% a year during 2007–09, with returns on capital of close to 53%. Following a US$401 million wind tower flange orders received in September, the company's order backlog rose further to 32 months, of which 80% is for wind components. We expect Taewoong's order book to continue to soar, driven by more long-term orders from global wind turbine makers and further penetration into new customers, as the company continues to gain global market share in wind shafts. In addition, its new product developments such as aircraft engine components could provide higher returns and help sustain the company's profitability in the long term.

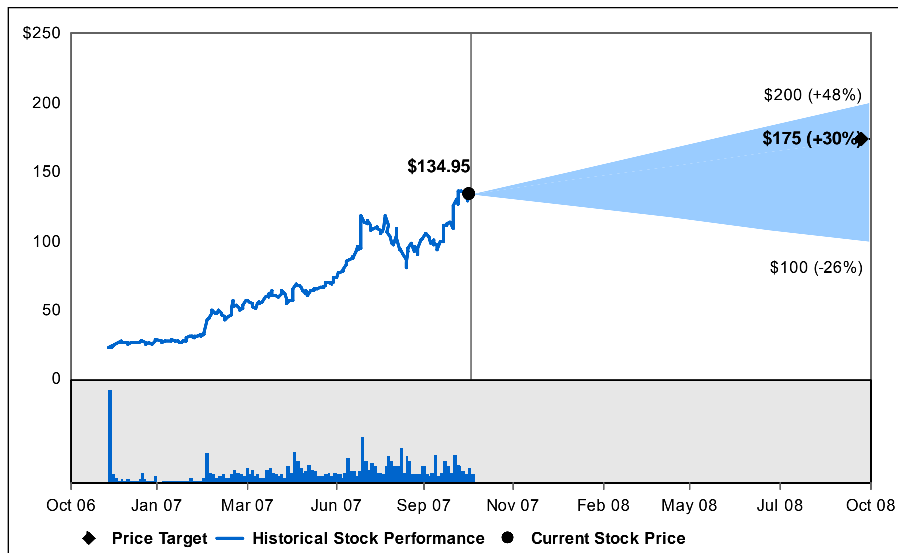
VeraSun (VSE, Overweight-V/Attractive)
Coverage: David Wilson
VeraSun is the third largest ethanol producer in the US (we expect it to be the second-largest at the end of 2008) and the largest pure play in the US ethanol space. We currently favor VeraSun among the US ethanol producers due to its large scale and potential to emerge as a low-cost producer combined with its long-term projected valuation and returns potential relative to peers. The company is one of the more levered peers to crush margins due to its scale, and while this is a near-term risk for the company we feel that longer term the more levered names will generate higher ROCE. Additionally, VeraSun has the strongest free cash flow potential among the group and should have the ability to pay down its outstanding debt sooner than the peer group.

Fuel Tech (FTEK, Overweight-V/Attractive)
Coverage: David Edwards
We believe that Fuel Tech has developed a series of scalable air pollution control technologies that distinctively position the company to take advantage of increasing emissions regulation, especially on coal, and thus provide investors with the opportunity for outsized returns. With regard to the US market, increased regulation is driving the demand for air pollution control technologies, and we see Fuel Tech as a main beneficiary. Additionally, as coal use in developing nations is expected to grow, we expect emission control regulations will follow, which we believe will create additional business opportunities for the company.

First Solar (FSLR, $134.95, Overweight-V, Price Target $175)

Coverage: David Edwards

Industry-Leading Margins and Visibility Skew Risk-Reward to Upside



Source: FactSet, Morgan Stanley

Price Target $175	We take both qualitative and quantitative factors into account as we believe First Solar has the potential to perform toward our bull case scenario. Flawless execution and management of Street expectations has provided consistent up-side to the stock and the story. Greatest risks involve new market entrants and execution as aggressive and yet untested level of expansion lies ahead. Our price target of $175 is probability weighted to our bull case scenario as we believe the company will likely perform beyond our base case.
Bull Case $200	Strong expansion execution, technology improvement and market acceptance. We assume 12 lines are added in 2011 and 2012 as contract sales increase vs. 8 in our base case (current run rate), reaching 55 lines by end of 212. Technology improvements increase line yield 8% annually via throughput and efficiency gains. ASP's decline 38% from 2006 levels to reach $1.49 per watt.
Base Case $150	Solid expansion execution, modest technology improvements and market acceptance. We assume current run rate expansion, reaching 47 lines by end of 2012. Technology improvements increase line yield 6% annually via throughput and efficiency gains. ASP's decline 40% from 2006 levels to reach $1.44 per watt.
Bear Case $100	Weaker expansion and technology improvements as competitors gain market share. Line expansion reaches 44 lines by end of 2012. Technology improvements increase line yield 5% annually as a result of lower than expected efficiency improvements. ASP's decline 45% from 2006 levels to reach $1.35per watt as competition enters market.

Investment Thesis

- • We rate First Solar Overweight based on its lowest-cost, non-silicon production process and significant manufacturing/technology lead over competitors in the thin-film space.

Why We Like FSLR

- • Differentiated product: low-cost, non-silicon, thin-film with virtually no meaningful direct competitors today.
- Profitable business model: highest gross margins in the industry, low capex/watt ($1.25), clear roadmap to bring cost competitiveness to retail electricity by 2012.
- Highest visibility in industry: long-term sales contracts to supply $5 billion, or 3GW of modules, through 2012.

Key Value Drivers

- Improved subsidy environments in key markets (US, Europe, Asia).
- Excess demand keeps ASPs relatively stable.
- Efficiency and throughput improvements.
- Accelerated manufacturing expansion beyond currently announced and estimated levels.

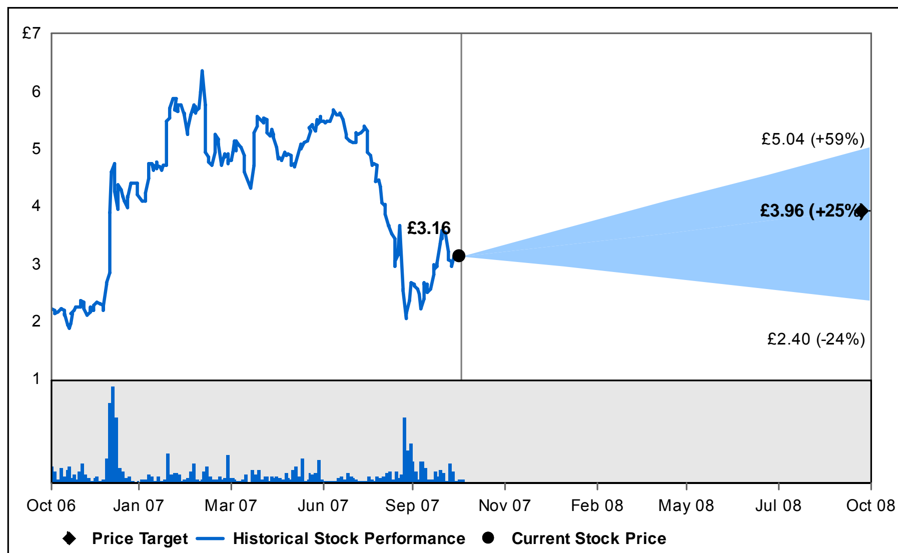
Potential Risks

- Execution: failure to successfully replicate manufacturing lines as production expands in unfamiliar territories.
- Decline in government support – roadmap relies on continued government subsidy.
- Rising interest rates: Developer, project returns rely on debt financing.
- Competing technologies.
- Unrealistic market expectations – investor enthusiasm may contribute to excessive volatility.

ReneSola (SOLA-LON, £3.16, Overweight-V, Price Target £3.96)

Coverage: Max Lee

Potential Upside Outweighing Downside



Source: FactSet, Morgan Stanley

Price Target £3.69		Based on a target 2008E P/E of 18x, implying a target 2007E P/E of 26x.
Bull Case £5.04	18x Bull Case 08e EPS	Easier silicon. With an easier supply situation, we assume ReneSola ships 300MW in 2008, with lower costs for raw materials but also lower selling prices for wafers. 2008 EPS = £0.28
Base Case £3.69	18x Base Case 08e EPS	Supply to ease up in 2H08. With the improved supply, we expect ReneSola to source an additional 600MT of raw materials to produce 233MW in 2008. 2008 EPS = £0.22
Bear Case £2.40	15x Bear Case 08e EPS	Supply shortfall. On prolonged silicon tightness, we assume ReneSola produces only 190MW in 2008, with higher silicon costs and also higher ASP for wafers. In addition, we factor in a de-rating due to another guidance miss. 2008 EPS = £0.16.

Investment Thesis

- ReneSola is well placed to prosper from strong growth in demand for photovoltaics in view of its supply sufficiency for 120 MW for 2007E and 233 MW for 2008E.
- We expect ReneSola to grow its earnings by 46% in 2008 and a further 45% in 2009.
- Very attractive valuation – with the stock trading at 14x 2008E EPS, we see the potential upside heavily outweighing the downside.

Key Value Drivers

- We expect ReneSola to expand output by 204%, to 120 MW this year and a further 94%, to 233 MW, next year, based on rapid capacity ramp-up and silicon supply sufficiency.

Potential Catalysts

- Strong EPS growth of 41% sequentially in 3Q07E, followed by another 77% in 4Q07E.

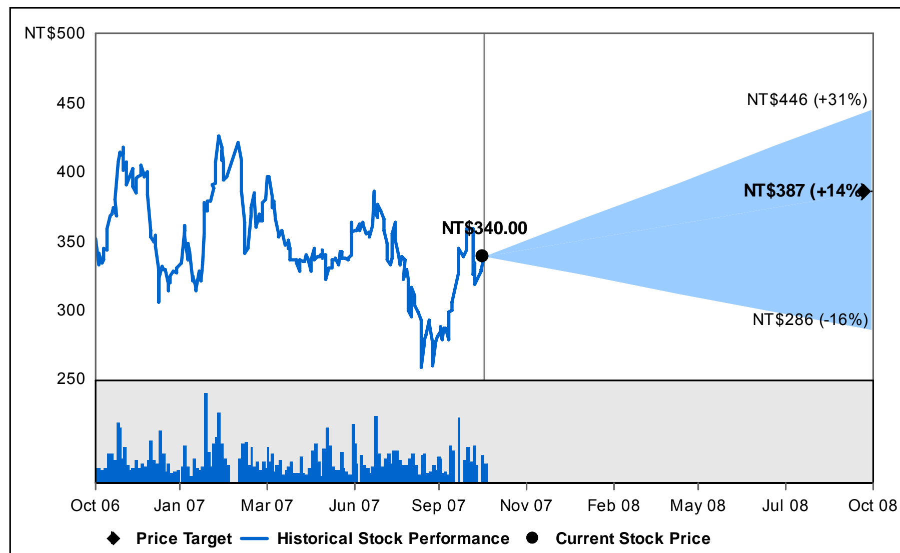
Key Risks

- Greater-than-expected equity issuance and subsequent earnings dilution.
- Raw material shortfall due to supply tightness.
- Further execution slippages.

Motech (6244-TW, NT$340, Overweight-V, Price Target NT$387)

Coverage: Max Lee

Potential Upside Outweighing Downside



Source: FactSet, Morgan Stanley

Investment Thesis

- Motech is improving its silicon sufficiency by signing raw material contracts to increase the production output to 177 MW in 2007E and 275 MW in 2008E, from 102MW in 2006.
- We expect Motech to grow its earnings by 39% in 2008 and a further 46% in 2009.
- Very attractive valuation – the current valuation of 21x 2008E EPS is lower then the peer average of 24x.

Key Value Drivers

- We expect Motech to expand output by 72%, to 177 MW this year and a further 55%, to 275 MW, next year, based on rapid capacity ramp-up and improving silicon supply sufficiency.

Potential Catalysts

- Strong EPS growth of 44% sequentially in 3Q07E with margin improvements.

Key Risks

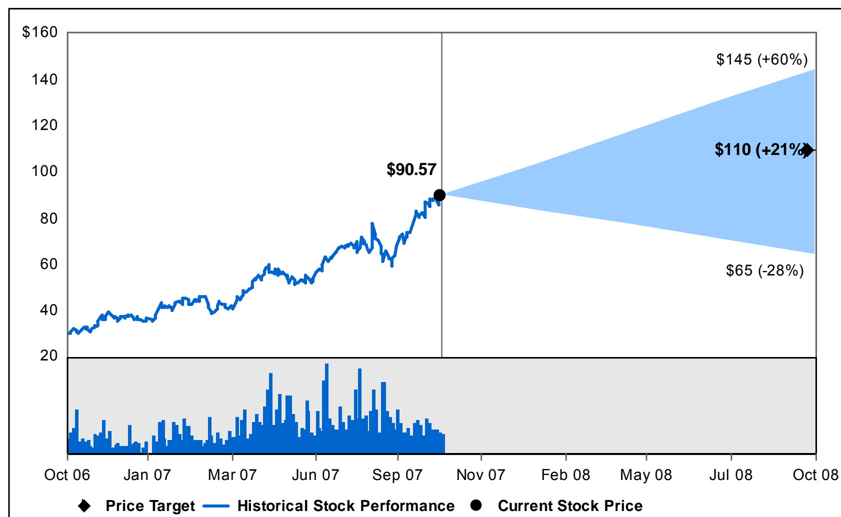
- Raw material shortfall due to supply tightness.
- Pricing pressure due to intensified competition.
- Slower-than-expected ramp-ups for internal wafer capacity in 2H08 and/or AE Polysilicon in 2009.

Price Target NT$387	Based on triangulation of P/E relative to Asian Peers, PEG and Sum-of-Parts Valuation, implying a target 2008E P/E of 25x.
Bull Case NT$446	Easier silicon. With an easier supply situation, we assume Motech will be able to secure more silicon to produce 320MW in 2008 with lower wafer cost and lower cell ASP.
Base Case NT$387	Supply to ease up in 2H08. We expect Motech to source about 30% of its raw materials in the spot market in FY07 and FY08. With improved supply situation from 2H08, we expect Motech to produce 275MW in 2008.
Bear Case NT$286	Supply shortfall. On prolonged silicon tightness, we assume Motech cannot secure adequate silicon in the spot market for FY08 (or sign additional contracts), its earnings may be depressed by up to 14% for the next 2 years.

SunPower (SPWR, $90.57, Overweight-V, Price Target $110)

Coverage: David Edwards

Underappreciated Integration Strategy Drives Significant Upside



Source: FactSet, Morgan Stanley

Price Target $110	We take both qualitative and quantitative factors into account as we believe SunPower's vertical integration strategy has been underappreciated by the Street. We expect performance to exceed consensus estimates offering investors outsized returns.
Bull Case $145	Accelerated capacity expansion and increased modules sales through Systems business. Module production capacity reaches 1.2 GW in 2012 as 6 new lines are added annually in 2010 – 2012 vs. our base case of 5 lines as a result of high internal demand from the Systems business. This drives business model leverage increasing gross margins beyond 30%. Module prices decline to $2.28 per watt, higher than expected as modules retain premium pricing power over competitors.
Base Case $110	Capacity expansion remains at current levels of 5 lines per year reaching total production capacity of 1.0 GW in 2012 The Systems business continues to increase demand for SPWR modules as high efficiency leverage is realized. Module price declines reach company goal of 50% reduction, however gross margins target of 30% is not reached until 2011 due slower than expected efficiency gains.
Bear Case $65	Expansion continues at current levels, but the Systems business installs fewer total megawatts vs. our base case with much less penetration of SPWR produced modules. Costs declines do not keep pace with ASP declines and business model performance targets fail to materialize.

Investment Thesis

- • SunPower's high efficiency modules and vertical integration set the company apart from the competition. We believe the market fails to realize the leverage potential of the company's integration strategy, resulting in current undervaluation of the company's stock.

Why We Like SPWR

- Differentiated product – 20%+ efficiency module and premium aesthetic puts product clearly ahead of competitors.
- Vertical integration – purchase of large scale installer, PowerLight, gives the company end point customer contact and diversified business model.
- Management team – diversified management team with significant solar industry experience.
- Silicon supply – well secured with Tier 1 suppliers giving long-term, stable production visibility.

Key Value Drivers

- Improved subsidy environments in key markets (US - California, Europe).
- High efficiency product garners excess demand, holding ASPs at a premium.
- Accelerated manufacturing expansion beyond currently announced levels.
- Greater penetration of SPWR modules being installed by Systems Business segment.

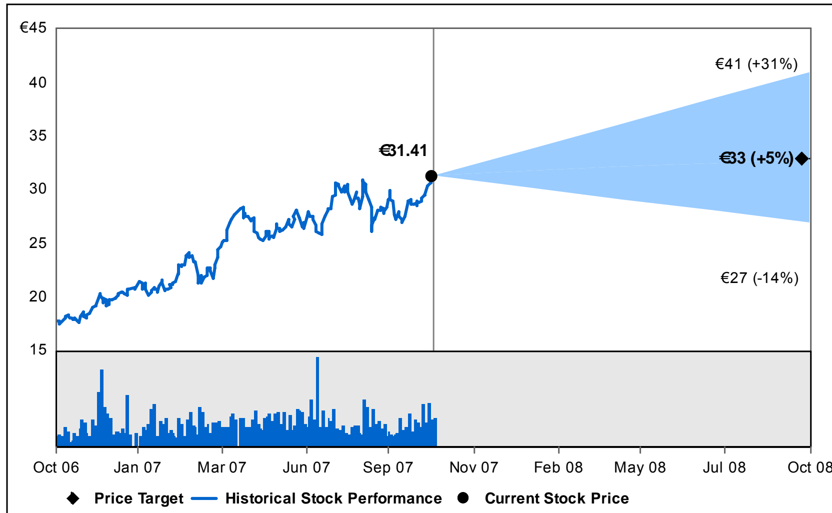
Potential Risks

- • The % of SPWR modules to be sold through the Systems business falls below our expectations.
- • Cost reduction opportunities embedded in integration is realized at slower pace than ASP decline.

Gamesa (GAM-ES, €31.41, Overweight, Price Target €33)

Coverage: Luciano Diana

Market Is Missing Further Upside Potential



Source: FactSet, Morgan Stanley

Price Target €33	
Bull Case €41	Rapid margins recovery, low working capital. Eolica EBITDA margins recover and reach management guidance at 18%, supported by pricing power and no supply chain issues. Working capital at 20% of sales, in-line with industry average
Base Case €33	Manufacturing margins recovery. Eolica EBITDA margins recover to 16.5% in 2008 (below guidance of 18%), working capital declines to 25% of sales.
Bear Case €27	Margins do not recover, poor working capital management. Eolica EBITDA margins remain below 16%, company fails to bring working capital lower than 30% of sales.

Investment Thesis

- Market underestimates value of integrated business model
- Integrated business model is one of the most defensible in the sector. Upstream integration in gearboxes is a major advantage, downstream integration in wind farm development (>20,000MW as of June '06) is unmatched among peers.
- High top-line visibility thanks to framework agreement with Iberdrola and other strategic accounts. Having Iberdrola as a customer is a huge plus going forward
- Free cash flow generation and ability to reduce working capital are less of a concern than historically
- The stock overhang due to Spanish regulatory uncertainty should have disappeared, but it hasn't in our view.

Key Value Drivers

- Overall return on capital employed, which mainly depends on working capital management in Eolica division

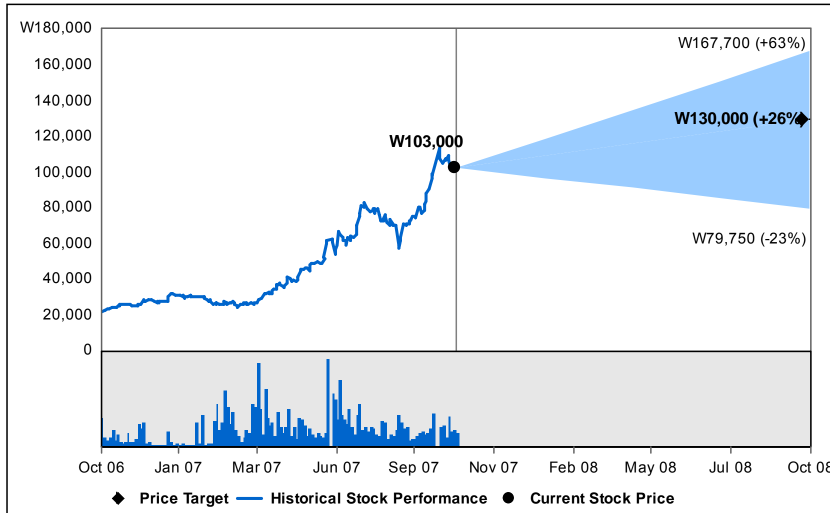
Potential Catalysts

- Approval of US PTC extension

Taewoong (0444490.KQ, ₩103,000, Overweight, Price Target ₩130,000)

Coverage: Shawn Kim

Wind Component Penetration Is the Key



Source: FactSet, Morgan Stanley

Price Target ₩130,000		
Bull Case **₩167,700**	11.6x Bull Case 08e BPS	Successful execution upstream. Further price/mix increases and fill–the-gap productivity improvements allow the company to continue to outgrow the wind components industry significantly and successful integration upstream leads to higher margins.
Base Case **₩130,000**	9.7x Base Case 08e BPS	Outperforming the market. Market share gains in wind turbine shaft and tower flange, and capacity expansion in new plants are sufficient to allow the company to generate revenue growth of 26% in 2007-16E, with an average operating margin of 18.5%.
Bear Case **₩79,750**	6.8x Bear Case 08e BPS	Execution challenges. Competition leads market share trends to deteriorate, and the company grows at a slower pace, with 2007-16 revenue growth of just 23%.

Investment Thesis

- Our new price target of W130,000 implies 19% upside from current levels and is driven by (1) higher capacity increase, (2) increased visibility on longer-term growth and profitability, (3) continued positive trend in market share and ASP at the company, and (4) higher return potential from further integration.
- We see large upside potential to returns in the mid-term from possible upstream vertical integration and further product mix shift.
- Further price/mix increases and fill–the-gap productivity improvements represents upside risks to our above consensus estimates.

Key Value Drivers

- Further share gains in wind turbine shafts are the key to future growth.
- Improving operating margins – Improved operating leverage and a better product mix should elevate profitability.

Potential Catalysts

- More new order wins for wind turbine main shafts and ship engine components.
- Faster-than-expected capacity expansion and volume growth.
- Ramp-up of the new plant and solid execution of new business.

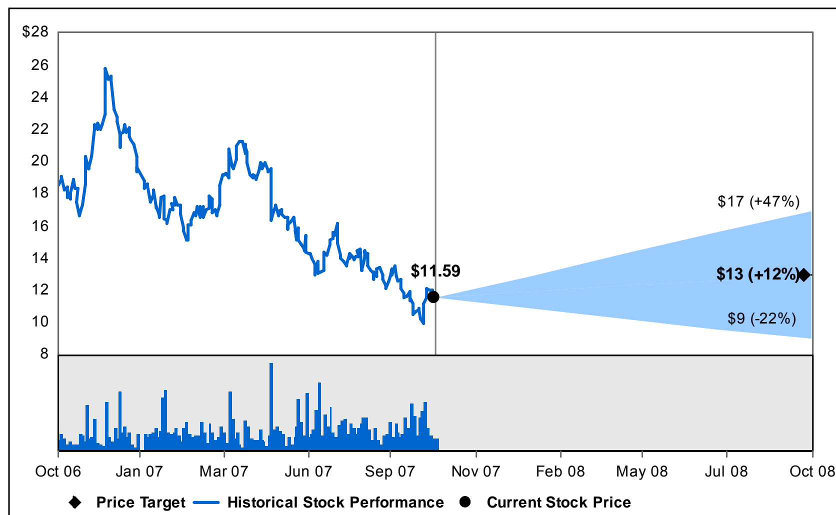
Key Risks

- Price competition could cause lower returns.
- Any fall in demand in the key end markets of wind turbines, shipbuilding and power plants might affect both margins and growth.
- If earnings growth falls below 20% in 2007-08E, the stock could be de-rated

VeraSun (VSE, $11.59, Overweight-V, Price Target $13)

Coverage: David Wilson

Near Term Risks are Real; Long-Term Outlook Positive



Source: FactSet, Morgan Stanley

Price Target $13	
Bull Case $17	Near-term and mid-cycle margins are 5% higher than base case, resulting from higher ethanol prices (as government mandates increase) and/or lower corn prices (due to increased acreage/yields).
Base Case $13	Mid-cycle ethanol price = $1.95/gallon (vs. future market of $1.55. Mid-cycle corn price = $3.05/bushel (vs. future market of $3.85). Resulting crush margin of $1.00/gallon.
Bear Case $9	Near-term and mid-cycle margins are 5% lower than base case, resulting from lower ethanol price (as capacity outstrips demand growth) and/or continued upward pressure on corn prices.

Investment Thesis

- With new, large-scale, and well-placed plants, VeraSun should emerge as a low-cost producer.
- Capacity growth is very visible and well funded.
- While we see continued short-term volatility, we also see risk-reward skewed to the upside long term.
- Key risks: potential for industry overcapacity resulting in higher corn prices and lower ethanol prices.
- We have a positive view of ethanol long term; VeraSun is the third-largest ethanol producer in the US and largest pure-play producer.

Key Value Drivers

- Ethanol prices, which will be dependent upon the underlying level of demand relative to supply.
- Prices of corn and natural gas, which combined account for ~65–70% of VeraSun's cost structure. Ability to manage the spread between ethanol and corn is a key success factor.
- Size and scope – following the recent acquisition VeraSun will have 9 homogeneous plants, creating operational synergies.

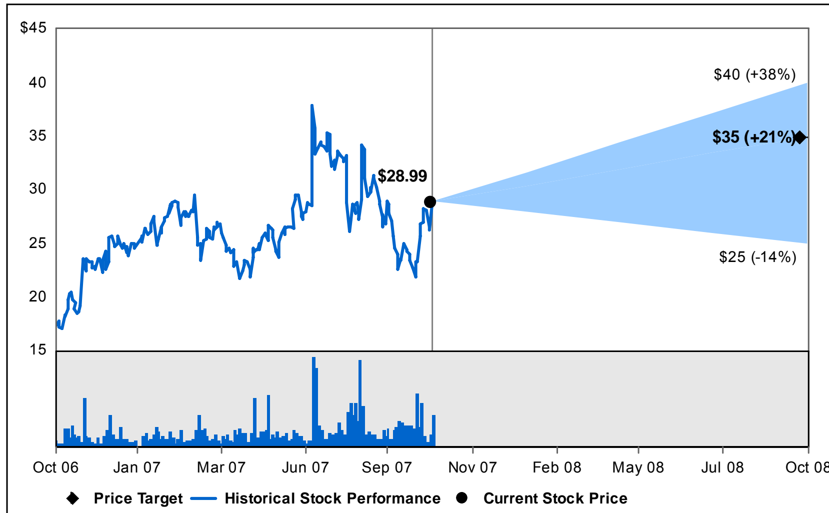
Potential Catalysts

- Positive: Increase in mandated ethanol usage at state and/or federal level.
- Positive: Ongoing oil supply/security concerns and focus on alternative fuel
- Negative: End of summer driving season reduces demand for gasoline and ethanol. Timing: Sept./Oct.
- Negative/Positive: Corn harvest. Weather could be a factor, but record plantings suggest a robust harvest that should keep prices down. Timing: Sept./Oct.
- Negative: Industry overcapacity leads to higher corn prices and lower ethanol prices.

Fuel Tech (FTEK, $28.99, Overweight-V, Price Target $35)

Coverage: David Edwards

2009 Story – Upside Depends on Emerging Markets



Source: FactSet, Morgan Stanley

Price Target $35	Our price target represents 35x our 2012 base case and EPS estimates discounted at 20%. We feel FTEK stock is a 2008 story, as we've seen additions to company backlog of $24.7 million since the previous quarter. This illustrates execution coming off slower than expected Q2 and we expect backlog to continue to rise as customers look to be in compliance with the 2009 Clean Air Interstate Rule.
Bull Case $40	Emerging market development accelerated. Management has pushed aggressively into emerging markets, especially China. These efforts prove successful and more near term than our base case. This increases sales volumes, especially for the company's recurring revenue products.
Base Case $35	US sales pick up as expected in 2008 and 2009. Backlog has started to rise once again and revenue recognition from past implementation delays become a reality. Demand accelerates as company's look to comply with regulations by current deadlines.
Bear Case $25	US sales growth does not materialize. U.S. sales continue to remain slow as customers choose penalties over compliance. We view this as more of a delay in sales as widespread regulation compliance cannot be avoided.

Investment Thesis

- Despite significant pollution as a result of coal-fired electricity generation, the abundance and affordability of coal in the US and emerging markets ensures that it will remain a significant energy source for years to come. However, tighter regulation will require generators to adopt pollution-control technologies to mitigate effects on the environment. Because of these macro factors, we expect demand for Fuel Tech's product to grow.

Key Value Drivers

- Strong product line-up.
- Profitable business model with increasing operating margins.
- Seasoned management and industry veterans guiding the company forward.
- Limited Competition.
- U.S. regulation provides strong demand visibility.
- Strong international expansion opportunities.

Potential Catalysts

- US legislation driving adoption:
  1. Clean Air Interstate Rule
  2. Clean Air Mercury Rule
  3. Clean Air Visibility Rule
- 2008 Olympic Games: China will likely seek to have new clean coal regulations in place before the world turns its gaze on the country for the Olympic Games.

Potential Risks

- Significant dependence on government regulation.
- Long sales cycle and customer profile can cause delayed revenue recognition.
- Slower-than-expected adoption in emerging markets.

Exhibit 2

Morgan Stanley Global Clean Energy Portfolio – Valuation Methodology and Risks

Company	Valuation Methodology	Risks to Rating and Price Target
First Solar	Discounted Earnings - Based on our 2012 earnings estimates, we apply sensitivity related to multiple, net margin and discount rate to establish a valuation range. Our $175 price target represents a 42x multiple on 2012 earnings discounted at 20%.	Reliance of large scale projects and replication of production lines it critical for First Solar to maintain its relative stock out performance. A decrease in these factors could erode the company's advantage in a growing competitive market. Additionally, changes in governmental policies in regions where First Solar operates could also adversely affect the stock relative to peers that do not participate in those regions.
Motech	Relative Multiples and Sum-of-Parts - Based on a range of valuation approaches, including Earnings-based valuation relative to Asian Peers and to Earnings Growth and Sum-of-Parts. Our NT$387 price target represents a 25x P/E on 2008e earnings.	Downside risks to achieving our price target include slippage in raw material delivery, resulting in lower silicon sufficiency in 2007 and 2008; volatile raw material price trends, and a deterioration in the competitive landscape.
SunPower	Discounted Earnings - Based on our 2012 earnings estimates, we apply sensitivity related to multiple, net margin and discount rate to establish a valuation range. Our $110 price target represents a 35x multiple on 2012 earnings discounted at 20%.	Failure of SunPower to achieve its expansion goals is the largest risk that could cause shares to underperform. Furthermore, if we have over estimated the company's vertical integration benefits or its ability to reduce cost in a competitive environment our valuation estimates could be overstated.
ReneSola	Our target price of 396p per share is based on a target multiple of 18x our reduced 2008 ModelWare EPS forecast. Our target P/E multiple of 18x factors in a 10% discount to our average target 2008e P/E of 20x for high-growth Asian technology stocks. Our target price for ReneSola equates to multiples of 26x 2007e EPS and 3.1x 2007e revenues.	Key risks to our price target include: greater-than-expected equity issuance and subsequent earnings dilution, a raw material shortfall due to supply tightness; and/or further execution slippages.
Gamesa	Sum of parts DCF - For manufacturing division, we use a WACC of 7.4% and a terminal growth rate of 3%. For wind farm sales division, we apply a cost of equity of 7%, WACC of 6.2% and long-term growth rate assumption of 3%	Risks to our price target include higher than expected costs to set up production facilities and a supply chain in China and the US, and failure to recover EBITDA margins in the turbine manufacturing business to long-term normalized levels of around 18%.
Taewoong	Residual Valuation - Function of stock's equity + PV of net profit generated in excess of company's cost of equity. Residual income discounted to determine value today utilizing a terminal growth rate of 5%, cost of equity of 11.5% and a beta of 1.0.	Price competition could result in lower returns. Any fall in demand in the key end markets of wind turbines, shipbuilding, and/or power plants might affect both margins and growth. If earnings growth falls below 20% in 2007-08, the stock could underperform.
VeraSun	Return-based approach - At current mid-cycle prices of $1.95/gallon for ethanol and $3.05/bushel for CBOT corn (considering a $0.35/bushel differential) VersaSun's mid-cycle crush margin is $1.00/gallon and generates a ROCE of 9%. This combined with a cost of capital of approximately 11% yields a ROCE/WACC ratio of 0.8x, which suggest an equity fair value of $11-13/share	VeraSun's shares could underperform in a low priced ethanol market given its size and higher than peer average leverage to crush margins. In such an environment VeraSun's financial results could be more adversely affected relative to peers, resulting in a commiserate lower valuation.
Fuel Tech	Discounted Earnings - Based on our 2012 earnings estimates, we apply sensitivity related to multiple, net margin and discount rate to establish a valuation range. Our $35 price target represents a 35x multiple on 2012 earnings discounted at 20%.	Additional slow downs and/or delays in sales orders should be magnified by the already long sales cycle, which could cause relative underperformance in the stock. Furthermore, slower adoption in emerging markets and significant dependence on government regulation could also cause the cause relative under performance at times.

Source: Morgan Stanley

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(as of September 30, 2007)

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	Coverage Universe		Investment Banking Clients (IBC)		
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	**966**	**42%**	**330**	**44%**	**34%**
Equal-weight/Hold	**1017**	**44%**	**326**	**44%**	**32%**
Underweight/Sell	**317**	**14%**	**88**	**12%**	**28%**
Total	**2,300**		**744**		

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Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Equal-weight (E). The stock's total return is expected to be in line with the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

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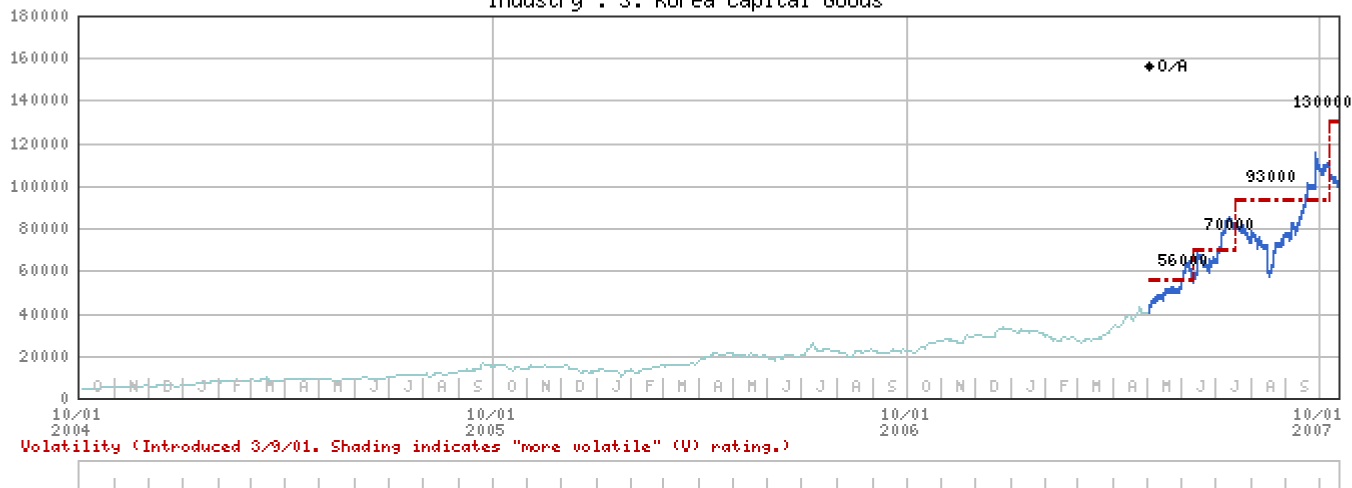
Stock Price, Price Target and Rating History (See Rating Definitions)

Taewoong (044490.KQ) - As of 10/16/07 in KRW
Industry : S. Korea Capital Goods



Stock Rating History: 5/3/07 : O/A

Price Target History: 5/3/07 : 56000; 6/12/07 : 70000; 7/19/07 : 93000; 10/9/07 : 130000

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst) Stock Price (Covered by Current Analyst)
Stock Ratings abbreviated as below (Effective 3/18/02, ratings appear as Stock Ratings/Industry View) ◆
Stock Ratings as of 3/18/02: Overweight (O) Equal-weight (E) Underweight (U) More Volatile (V) No Rating Available (NAV)
Stock Ratings prior to 3/18/02: Strong Buy (SB) Outperform (OP) Neutral (N) Underperform (UP) No Rating Available (NAV)
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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Industry Coverage: Clean Energy

Company (Ticker)	Rating (as of)	Price (10/15/2007)
David Edwards		
EnerNOC Inc. (ENOC.O)	U-V (10/16/2007)	$48.06
Evergreen Solar Inc. (ESLR.O)	E-V (10/16/2007)	$9.23
First Solar Inc. (FSLR.O)	O-V (10/16/2007)	$134.95
Fuel Tech Inc. (FTEK.O)	O-V (10/16/2007)	$28.99
SunPower Corp. (SPWR.O)	O-V (10/16/2007)	$90.57
David Wilson		
Aventine Renewable Energy Holdings Inc. (AVR.N)	E-V (10/16/2007)	$9.72
BioFuel Energy Corp. (BIOF.O)	U-V (10/16/2007)	$5.24
Pacific Ethanol Inc. (PEIX.O)	E-V (10/16/2007)	$8.99
US BioEnergy Corp. (USBE.O)	E-V (10/16/2007)	$7.22
VeraSun Energy Corp. (VSE.N)	O-V (10/16/2007)	$11.59

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