Stocks to watch: Gulf cleanup may be opportunity

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With the exploded well in the Gulf of Mexico continuing to spew 200,000 gallons of oil a day, the cleanup has already cost BP $450 million and it's by rising $10 million a day.

Companies that specialize in environmental cleanup are being called upon to stem the damage, and investors may want to look at firms that could see a surge in business.

The well blew open on April 20 when the Deepwater Horizon drilling platform exploded. Several companies are working with the Coast Guard to block the spread of the oil and prepare for a labor intensive mop-up as the slick reaches the coast.

One company that is likely to take a lead in the cleanup is Clean Harbors Inc. (CLH), the largest environmental decontamination company in North America, with almost 7,000 employees and a $1.6 billion market cap.

Clean Harbors has worked on high-profile disasters before, decontaminating television studios hit by the 2001 Anthrax attacks and helping to clean toxic mold out of homes following Hurricane Katrina. The company's stock surged in both cases.

For the Gulf oil spill, workers are driving vacuum trucks, with 2000-foot long hoses, to the edge of inlets where they will suck up thousands of gallons of oil, as the spill reaches the shore.

"Once it hits you will have laborers literally scraping oil off the shores with high-pressure hot water streams," said Clean Harbors CEO Alan McKim.

The company has long-term contracts with the Coast Guard that automatically took effect after the disaster, and it already has 700 employees in the region. The Massachusetts-based company expects that number to rise as the oil hits beaches, according to McKim.

"There is a pretty clear line from this disaster to revenues for Clear Harbors," said David Manthey, an analyst at Baird & Co. "When there is an oil spill, Clean Harbors is going to be there."

In the wake of the disaster, investors jumped on the stock, shooting prices 27 percent from $55 to $70 in just a few days. The stock later retreated back to around $61.

Manthey cautions that the stock may have risen too fast in the short-term, and that Clean Harbor's revenues from the cleanup are more likely to be in the "tens-of-millions," rather than "hundreds-of-millions."

Analysts say the spill could cost BP as much at $15 billion in cleanup expenses, settlements of class action loss suits, and other costs. The Exxon Valdez disaster in 1989 cost Exxon $4.3 billion.

But even if investors are overestimating the money that Clean Harbors stands to make on this disaster, the company stock may still offer longer-term value.

As U.S. manufacturing picks up in 2010, factories will need to dispose of hazardous chemicals, a task that they may have delayed during slow quarters. Dealing with this buildup of industrial waste may give Clean Harbors strong revenues in the second half of 2010, according to Michael E. Hoffman, an analyst at Wunderlich Securities. Revenues for the company were $1.1 billion in 2009.

Investors looking to put money in the cleanup should also take a look at Nalco Holding Co. (NLC), a $3.35 billion market cap firm, which makes chemicals that are being used to break up the oil in the spill. Another player is Lakeland Industries Inc. (LAKE), a small company that makes disposable uniforms worn by the disaster workers.

With the damage total not yet known for this disaster, long-term investors may want to consider steering clear of companies that may be on the hook for the costs. Those include BP, which owns the well, Transocean, Inc. that was operating the rig, and Halliburton Inc., the company that was responsible for sealing the well.