

# U.S. Companies Seek Israeli Oil

BY ALAN D. ABBEY

A joke Israelis like to tell themselves goes like this: Why did it take the Israelis 40 years of wandering before entering the Promised Land? Because it took them 40 years to find the one spot in the Middle East without oil.

As in many cases, there is more than a grain of truth in the joke. In its 60 years of existence, despite being surrounded by oil-rich Arab lands, Israel has eked out only the most minimal amount of oil from its territory. Nearly 500 wells have been drilled in Israel since 1948, with only the Heletz Field, south of Tel Aviv, producing much. In 50 years, the well has produced 18 million barrels—less than one-fifth of Israel's annual consumption, and barely enough to last one day in the U.S. Further, the Arab boycott of Israel sent big oil running decades ago. According to a recent report, drilling a well in Israel costs double what it does in Texas.

But that has not stopped both visionaries and hardheaded businessmen from seeking oil and energy profits in Israel. Two companies—one a highly speculative play, and the other a more conventional choice—can say the word “Israel” and “oil” in the same sentence. Both of these tales, the wild one and the mild one, start in Dallas. The wilder of the two, Zion Oil & Gas (AMEX: ZN), is located there, as is Alon USA Energy (NYSE: ALJ).

Zion Oil, founded and driven by born-again Christian John Brown, raised \$12.5 million on the AMEX in 2007 on a best-efforts/minimum/maximum setup without an investment banker. The company's

chief assets are two drilling licenses from the Israeli Petroleum Commissioner, one of which was recently renewed. In addition, officials say the company received useful information and experience from the dry well it completed (but subsequently closed down) in 2007.

There is seismic data that suggest there may be oil reserves more than 15,000 feet below the sometimes turbulent Israeli surface. According to a *Portfolio* magazine profile of Brown in 2007, previous explorations have been abandoned owing to technical problems and lack of funds. “Deep horizons have hardly been touched by drill holes,” said Yaakov Mimiran, Israel's petroleum commissioner.

But investors in Zion, including prominent Christian evangelicals like Hal Lindsey, are more likely to have been swayed by Brown's religious fervor and by Biblical tracts reproduced on company materials, such as, from Deuteronomy, “He made him suck honey out of rock, and oil out of the flinty rock.”

Jim Smith, a certified public accountant with Dallas' Smith, Jackson, Boyer & Bovard and president of the Texas Association of CPAs, told the *Dallas Business Journal* that Zion Oil hit the market at a time when oil and gas stocks were popular among investors. “This is a highly speculative stock, not for the faint of heart. It is absolutely not for your mother,” Smith said.

A more conventional play is Alon USA Energy, an independent refiner and marketer of petroleum products operating primarily in the Southern, Western and Southwestern United States. Alon owns and

operates four sour and heavy crude oil refineries in Texas, California, and Oregon, and has a combined throughput capacity of approximately 170,000 barrels a day. It refines gasoline, diesel fuel, petrochemical feedstocks, asphalt, and specialty blended asphalts. Alon markets gasoline and diesel under the FINA brand name at 1,100 locations, including 308 owned or leased 7-Elevens located in Texas and New Mexico.

Why is this \$1.7 billion company mentioned in an article on Israeli energy stocks? Because it is 74% owned by an Israeli holding company, also called Alon. Since Alon (which has subsidiaries trading on the Tel Aviv Stock Exchange) opened its first gas station in Israel in 1993, it has grown to encompass more than 20% of the Israeli fuel-sales market. It grew significantly in 1999 and 2001 through acquisition of Dor Energy. In 2000, Alon USA was formed in order to acquire the Big Spring refinery and the related pipeline, terminal, and marketing assets from Fina. In 2003, Alon bought Blue Square, one of Israel's two leading supermarket chains, and is now, according to Dun & Bradstreet Israel, the largest service and trade company in Israel ranked by operating revenue.

Alon USA stock has traded in a broad range (\$24 to \$48) and slipped in late 2007 from lower estimates caused by record crude oil costs and an inability to pass those through in its core asphalt division. But Jim Byrne, analyst with BMO Capital Markets, recently told Reuters that investors were looking past the weakness in Alon's third quarter 2007 and were anticipating a strong 2008. **E**