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Energy sector

Stock picking in the energy sector

Stock	Price	Target	Rating
NEN	\$0.36	\$1.00	Spec Buy
SEA	\$0.48	\$0.86	Buy
AZZ	\$0.42	\$1.00	Spec Buy
NXS	\$0.22	\$0.39	Spec Buy
JPR	\$0.56	\$2.42	Spec Buy
OSH	\$6.36	\$7.49	Buy
WPL	\$36.20	\$40.10	Accumulate
HZN	\$0.24	\$0.51	Buy
DTE	\$0.58	\$1.03	Spec Buy
CNX	\$0.15	\$0.63	Spec Buy
KAR	\$4.78	\$11.00	Spec Buy

Price Targets above have changed by 1% or less due to mark to market on oil prices and currency.

Disclosure: Bell Potter Securities has received fees for services with regard to individual stocks in this report. To view relevant disclosures please see subsequent individual stock pages.

Chart (Energy Index XEJ)



SOURCE: IRESS

Mixed messages – mixed performances

Energy stocks have generated an unusually great divergence of performance within the sector this year. Neon Energy (NEN) and Beach Energy (BPT) have performed strongly while Carnarvon (CVN) and Dart Energy (DTE) have disappointed.

The industry conditions have also been unusually volatile, with the CSG industry grabbing the headlines for the wrong reasons on a daily basis, and the industry and Government responses have not been helpful for this growth industry. If the next growth story through shale gas and oil is to succeed, the industry will have to lift its game in educating the public, the authorities and politicians.

On the positive side, oil prices have remained quite high, and the outlook for domestic gas prices is looking stronger than ever, largely thanks to the LNG export momentum.

Stock picks in order of preference

The Energy sector has suffered in line with market weakness and this has created some great investment opportunities. Our recommendations in order of preference are as follows, keeping in mind that the risks in some of these stocks are high.

NEN is still our No. 1 pick in the sector. The Californian oil assets are arguably worth more than the current share price and Vietnam exploration offers big upside.

SEA is our preferred shale play, with the Bakken production assets worth more than the share price. Upside to other emerging US shale plays comes for free.

AZZ is our most undervalued shale play and we are confident that the results will come through to demonstrate value.

NXS is a high risk Buy but we think that the pressure to do a deal on Crux will deliver a result better than what the current share price indicates.

JPR is likely to be re-rated with the listing on the AIM market imminent. As a Kazakh oil producer it was always going to be hard to get Australian investor support.

OSH is trading below our assessed value of the highest quality LNG project being developed in our region. LNG expansion could enhance the value further.

WPL is the only current LNG producing company of note and the Pluto project will strengthen this position within 6 months. Low PE's give no credit to growth potential.

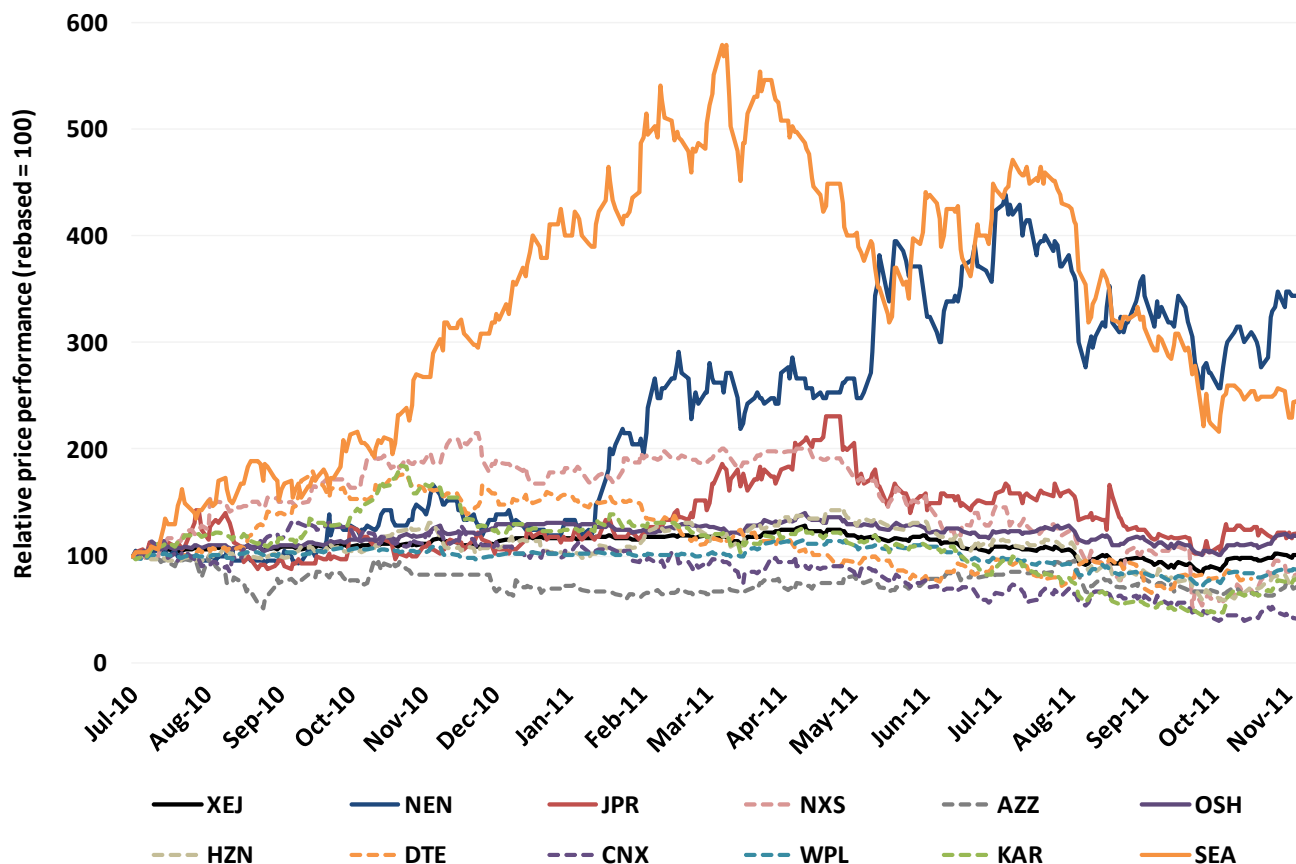
HZN has 3 key assets. One is in production at Maari, one in development offshore China and one is about to be approved in PNG. Good assets, good growth in oil.

DTE faces some near term headwinds as timetables are slipping and CSG "problems" grow. Valuation still supports a Spec Buy but the timing may not be quite right.

CNX has significant upside if the UCG concept can be proved. Without Government support, this growth potential may be found overseas which will take more time.

KAR is a high risk exploration stock. We consider the Browse basin a tough gig, but we are more positive about the Brazilian drilling to commence in 2Q 2012.

Figure 1 - Energy sector performance



SOURCE: IRESS AND BELL POTTER SECURITIES ESTIMATES

Stock performances

NEN has been one of the best performing stocks in the Energy sector this year, following a \$26m raising at \$0.25/share in March 2011 (managed by Bell Potter Securities). The company still has cash of \$24m. We strongly believe the best is yet to come for NEN, which is why it's still our No.1 pick in the sector.

SEA was a very strong performer in the 2H of 2010 but has given a lot of that gain back in 2011. We initiated research with a Buy on 3 October 2011, and it has performed positively since then. We believe the company is very likely to regain traction as higher production targets are achieved over the next year, and perhaps success in the Niobrara shale.

At the disappointing end is CNX, where the Queensland Government has made life difficult for all UCG promoters. The Department of Environment and Resource Management (DERM) shut down the CXY project at Kingaroy and has stalled both the CNX and LNC projects near Dalby on several occasions. CNX's Bloodwood Ck UCG project is performing very well but it seems like this revolutionary energy concept may need to be developed overseas.

The middle range performers of our stock coverage have done OK, but neither have they delivered the sort of performance we had expected. The general market conditions have not been conducive for exploration stocks or concept stocks, which is understandable. Bell Potter believes that the market is in the process of bottoming, and there are many energy stocks with fundamentally good valuation support. We think this is an excellent time to be buying energy stocks, for potentially superior returns over the next year.

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Neon Energy (NEN)

Recommendation

Spec Buy (unchanged)

Price

\$0.36

Target (12 months)

\$1.00 (unchanged)

Expected Return

Capital growth	178%
Dividend yield	0%
Total expected return	178%

Company Data & Ratios

Enterprise value	\$130m
Market cap	\$154m
Issued capital	428m
Free float	86%
Avg. daily vol. (52wk)	1,525,362
12 month price range	\$0.12 - \$0.47
GICS sector	

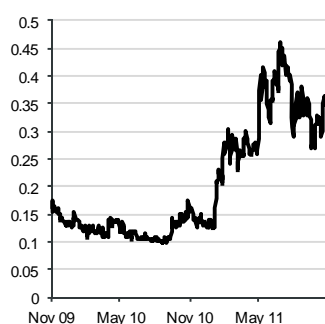
Energy

Disclosure: Bell Potter Securities acted as Joint Lead Manager for NEN's equity placement in March 2011 and received fees for that service.

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	0.32	0.32	0.18
Absolute (%)	14.3	14.3	105.7
Rel market (%)	12.3	7.0	116.3

Absolute Price



SOURCE: IRESS

Investment view

We continue to recommend NEN as a Spec Buy. We believe the current share price only reflects the base case Californian oil projects. The Vietnam exploration prospects are world class and offer very large upside. Our risked valuation is \$1.00/share and the unrisked value could be in excess of \$6.00.

- The North San Ardo oil field generates enough cash flow to cover all of the company's overheads.
- The Paloma Deep well currently drilling has found oil in a secondary target (3-4mmbbl potential) on the way down to the primary targets (1-20mmbbl potential).
- The Paris Valley oil project has over 100mmbbl of oil in place, but it's heavy and viscous. Can horizontal steam flooding generate a commercial return?
- A farm-out of the Vietnamese exploration licenses would lead to drilling these big targets in the 1H 2012 with a credible partner.

ExxonMobil encounters hydrocarbons in offshore Vietnam

XOM has confirmed that they have made a discovery offshore Vietnam which the media has suggested could have potential reserves in the 4-7Tcf range. It is fair to say that XOM would not make a comment unless it could be a materially important project. This part of the Song Hong basin is very lightly explored and a new discovery of this size would increase the prospectivity in a major way. This is very positive for NEN, which holds 50% of Block 120 immediately to the south of Exxon's Blocks 117-118-119 but also 50% of Block 105 to the north. As NEN is currently discussing a farm-out of its 2012 drilling program in Vietnam, the XOM news can only be helpful in clinching a good deal, which we expect to be announced in November 2011.

Paloma Deep main targets about to be drilled

NEN has announced that logs have shown the Paloma sandstone to have 205 feet of oil saturation. The best part of the reservoir is in the upper 55 feet, with 39 feet net reservoir. We understand pressure data is good, reducing the risk that historical production on the greater Paloma structure has impacted reserves at this location. Using average reservoir parameters over a stated 450 acre play, we estimate this could be 3-4mmbbl recoverable, of which NEN owns 75%. This would be worth \$0.06-0.07/share. The remaining oil column in the Paloma sandstone is of lower reservoir quality and may not flow at commercial rates in its own right, but could add 1-2mmbbl reserves over time.

The primary targets in Paloma Deep are in the Middle and Lower Stevens sandstones. Each target is about double the reserves potential of the Paloma sandstone now sitting behind casing. It's always encouraging to find oil on the way down to a primary target, and we look forward to further drilling updates over the next 2-3 weeks, with testing likely to follow. The well has set intermediate casing and is drilling ahead below 11,000 feet and has a planned depth of 13,500 feet.

Table 1 - Financial summary

PROFIT AND LOSS						FINANCIAL RATIOS							
Year ending 30 Jun	Unit	2010A	2011A	2012E	2013E	2014E	Year ending 30 Jun	Unit	2010A	2011A	2012E	2013E	2014E
Revenue	\$m	7	14	23	32	48	VALUATION						
Operating expense	\$m	(8)	(13)	(21)	(25)	(32)	Reported NPAT	\$m	(4)	(1)	(1)	1	6
EBITDA	\$m	(1)	1	3	7	17	Underlying NPAT	\$m	(2)	(1)	(1)	1	6
D&A	\$m	(1)	(2)	(6)	(7)	(8)	Reported EPS	c/sh	(1.3)	(0.2)	(0.3)	0.1	1.3
EBIT	\$m	(2)	(0)	(3)	0	8	EPS growth	%		n.m	n.m	n.m	n.m
Net interest expense	\$m	0	(0)	1	0	0	PER	x	-27.1x	-165.8x	-108.5x	314.1x	27.8x
PBT	\$m	(2)	(1)	(2)	1	9	OpCFPS	c/sh	0.08	0.40	2.16	3.31	4.72
Tax expense	\$m	-	0	1	(0)	(3)	Price/OpCFPS	x	441.5x	91.9x	16.9x	11.0x	7.7x
NPAT (underlying)	\$m	(2)	(1)	(1)	1	6	DPS	c/sh	-	-	-	-	-
Abnormal items	\$m	(2)	-	-	-	-	Yield	%	-	-	-	-	-
NPAT (reported)	\$m	(4)	(1)	(1)	1	6	EV/EBITDA	x	-153.6x	103.9x	50.2x	19.7x	8.6x
CASH FLOW						PROFITABILITY RATIOS							
Year ending 30 Jun	Unit	2010A	2011A	2012E	2013E	2014E	EBITDA margin	%	-13%	9%	12%	23%	34%
OPERATING CASHFLOW						EBIT margin							
NPAT	\$m	(2)	(1)	(1)	1	6	Return on assets	%	-32%	-3%	-12%	1%	17%
Add: non-cash items	\$m	2	3	12	14	15	Return on equity	%	-1%	-1%	-2%	1%	8%
Change in working capital	\$m	1	(1)	(1)	0	0	Dividend cover	x	-10%	-2%	-2%	1%	9%
Operating cash flow	\$m	0	1	9	15	21	LIQUIDITY & LEVERAGE						
INVESTING CASHFLOW						(Net debt) / cash							
Net PP&E	\$m	(3)	(5)	(7)	(8)	(9)	ND / E	%	2	24	15	12	14
Exploration & evaluation	\$m	(3)	(6)	(12)	(14)	(14)	ND / (ND + E)	%	-4%	-40%	-25%	-19%	-19%
Other	\$m	(1)	7	-	-	-	ASSUMPTIONS						
Investing cash flow	\$m	(7)	(4)	(19)	(22)	(23)	Year ending 30 Jun	Unit	2010A	2011A	2012E	2013E	2014E
FINANCING CASHFLOW						Oil price (WTI)							
Share capital	\$m	5	25	1	4	4	US\$/bbl		67.8	81.3	85.5	90.0	90.0
Dividends paid	\$m	-	-	-	-	-	AUD / USD		0.88	0.98	1.07	1.03	0.95
Borrowings	\$m	-	-	-	-	-	SUM-OF-PARTS						
Other	\$m	(0)	-	-	-	-							
Financing cash flow	\$m	5	25	1	4	4							
Change in cash	\$m	(2)	22	(9)	(3)	2							
BALANCE SHEET						PROJECTS							
Year ending 30 Jun	Unit	2010A	2011A	2012E	2013E	2014E							
ASSETS						Risking							
Cash	\$m	2	24	15	12	14		Unrisked volume	Unrisked NPV (\$m)	Risked NPV (\$m)	\$/sh	\$/bbl	
Accounts receivable	\$m	1	3	3	4	6	North San Ardo	100%	3 mmbbl	113	113	0.25	37.4
Oil & gas properties	\$m	25	23	25	25	26	Paris Valley	50%	8 mmbbl	133	67	0.15	8.9
Exploration & evaluation assets	\$m	18	16	22	29	36	Paloma Deep	10%	90 mmbbl	338	34	0.07	5.0
Other	\$m	0	0	0	0	0	Rua Bien Block 120	10%	611 mmbbl	764	76	0.17	5.0
Total assets	\$m	47	66	65	71	83	Ca Lang Block 120	10%	461 mmbbl	576	58	0.13	5.0
LIABILITIES						Song Ca Block 105							
Accounts payable	\$m	1	2	2	3	4	15%	130 mmbbl	260	39	0.08	5.0	
Borrowings	\$m	-	-	-	-	-	20%	3892 Bcf	778	156	0.34	0.5	
Provisions	\$m	2	2	1	2	2	Net asset value		2,961	542	1.18		
Deferred tax liability	\$m	2	2	2	2	2	Group / unallocated		(96)	(96)	(0.21)		
Total liabilities	\$m	5	6	5	7	9	(Net debt) / Cash		15	15	0.03		
SHAREHOLDER'S EQUITY						Equity value							
Share capital	\$m	113	138	138	143	146	Diluted NoSh (m)		2,880	461			
Retained earnings	\$m	(72)	(72)	(74)	(73)	(67)	Value per share (\$/sh)		6.28	1.00			
Reserves	\$m	1	(5)	(5)	(5)	(5)	VALUATION SENSITIVITIES						
Total equity	\$m	42	60	59	64	74	OIL PRICES						
Weighted average NoSh	m	294	354	432	442	455		US\$/bbl	A\$m	A\$/sh	% diff		
PRODUCTION						EXCHANGE RATE (long term)							
Year ending 30 Jun	Unit	2010A	2011A	2012E	2013E	2014E		AUD/USD	A\$m	A\$/sh	% diff		
North San Ardo (CA, USA)	mmbbl	0.1	0.2	0.3	0.4	0.3	Base	0.85	461	1.00			
Paris Valley (CA, USA)	mmbbl	-	-	-	-	0.2	Low	0.95	431	0.94	-6%		
Total production	mmbbl	0.1	0.2	0.3	0.4	0.5	High	0.75	490	1.07	6%		
						WACC (post tax)							
						%							
						A\$m							
						A\$/sh							
						% diff							
						Base							
						10.2%							
						Low							
						11.2%							
						High							
						9.2%							
						461							
						1.00							
						461							
						1.00							
						0%							
						461							
						1.00							
						0%							

SOURCE: BELL POTTER SECURITIES ESTIMATES

Sundance Energy (SEA)

Recommendation

Buy (unchanged)

Price

\$0.48

Target (12 months)

\$0.86 (unchanged)

Expected Return

Capital growth	81%
Dividend yield	0%
Total expected return	81%

Company Data & Ratios

Enterprise value	\$108m
Market cap	\$132m
Issued capital	277m
Free float	100%
Avg. daily vol. (52wk)	1,142,959
12 month price range	\$0.38 - \$1.10
GICS sector	Energy

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	0.48	0.68	0.54
Absolute (%)	-5.2	-33.1	-15.0
Rel market (%)	-7.2	-40.3	-4.4

Absolute Price



SOURCE: IRESS

Investment view

The stock appeals to us as an established oil producer in the Bakken, one of the two premier shale regions of the US (the other being the Eagleford shale). The company has also positioned itself in other new US shale plays such as the Niobrara and the Mississippian for longer term growth options. Our risked valuation is \$0.86/share, including \$0.64 attributable to the proven Bakken assets. The stock is a Buy with the following key investment attributes:

- Quality asset in the US Bakken shale oil play
- Upside potential from new shale plays in the Niobrara and the Mississippian
- Undrawn US\$100m debt facility from the Bank of Oklahoma
- Producing 1,000bopd now, targeting 5,000bopd in 2-4 years
- A nicely diversified US shale play

Proven Bakken oil producer, upside from Niobrara shale

SEA is a US shale oil production company with current production of about 1,000boepd sourced from the Bakken shales in North Dakota. The company has an ambition to reach 5,000boepd in the next 2-4 years based on its 8,667 acres in the Bakken and the 15,000 acres it owns in the Niobrara shale play of Wyoming and Colorado. It's not hard to see the company achieving its objectives, which should double or triple the market cap.

Strong valuation support

We value SEA's Bakken oil shale assets alone at \$0.64/share and this could be conservative as we use a low Estimated Ultimate Reserve (EUR) of 0.7mmboe per 10,000ft lateral well compared to the surrounding area's average of >0.8mmboe. The company's Niobrara shale properties look promising but have been risked to reflect the immaturity of this new oil shale region. Overall 3P reserves are certified at 26mmboe (77% attributable to the Bakken) but could be substantially higher. Our risked valuation for SEA is \$0.86/share and an unrisked value is \$0.93/share which still could be conservative. The company generated revenue of \$18m in FY11 and has \$24m in cash plus an undrawn US\$100m debt facility provided by the Bank of Oklahoma.

Table 2 - Financial summary

PROFIT AND LOSS						
Year ending 30 June	Unit	2011A	2012E	2013E	2014E	2015E
Revenue	\$m	18	39	91	124	152
Expense	\$m	(9)	(20)	(36)	(44)	(53)
EBITDA	\$m	9	19	55	80	99
Depreciation	\$m	(7)	(10)	(22)	(30)	(36)
EBIT	\$m	2	9	32	50	63
Net interest expense	\$m	0	1	(0)	(1)	(0)
PBT	\$m	3	10	32	49	63
Tax expense	\$m	(5)	-	-	-	(10)
NPAT (reported)	\$m	(2)	10	32	49	53
Abnormal items	\$m	9	-	-	-	-
NPAT (adjusted)	\$m	7	10	32	49	53

CASH FLOW						
Year ending 30 June	Unit	2011A	2012E	2013E	2014E	2015E
OPERATING CASHFLOW						
NPAT	\$m	7	10	32	49	53
Add: non-cash items (DD&A)	\$m	8	10	22	30	36
Change in working capital	\$m	(6)	(6)	-	-	-
Operating cash flow	\$m	10	14	55	80	89
INVESTING CASHFLOW						
Net PP&E	\$m	(23)	(37)	(68)	(69)	(71)
Exploration & evaluation	\$m	(1)	-	-	-	-
Other	\$m	11	-	-	-	-
Investing cash flow	\$m	(13)	(37)	(68)	(69)	(71)
FINANCING CASHFLOW						
Share capital	\$m	19	0	0	-	-
Interest bearing debt	\$m	-	3	18	(7)	(14)
Financing cash flow	\$m	19	3	18	(7)	(14)
Change in cash	\$m	15	(20)	5	3	4

BALANCE SHEET						
Year ending 30 June	Unit	2011A	2012E	2013E	2014E	2015E
ASSETS						
Cash	\$m	24	4	9	12	16
Accounts receivable	\$m	3	6	14	19	23
Oil & gas properties	\$m	46	73	119	157	193
Exploration & evaluation assets	\$m	6	6	6	6	6
Other	\$m	0	0	0	0	0
Total assets	\$m	79	89	148	195	238
LIABILITIES						
Accounts payable	\$m	9	6	14	19	23
Deferred tax liabilities	\$m	7	7	7	7	7
Borrowings	\$m	-	3	21	14	-
Provisions	\$m	0	0	0	0	0
Total liabilities	\$m	16	16	42	40	30
SHAREHOLDER'S EQUITY						
Share capital	\$m	67	67	67	67	67
Retained earnings	\$m	5	15	48	97	150
Reserves & outside equity	\$m	(9)	(9)	(9)	(9)	(9)
Total equity	\$m	63	73	106	155	208
Weighted average NoSh	m	264	277	277	278	278

PRODUCTION (NET)						
Year ending 30 June		2011A	2012E	2013E	2014E	2015E
Southern Bakken	boepd	701	918	1,799	2,305	2,674
Northern Bakken	boepd	-	246	595	775	918
Twister DJ	boepd	-	141	486	508	558
Silo & Bull Canyon DJ	boepd	-	148	357	462	537
Wattenberg DJ	boepd	-	57	98	126	148
Total	boepd	701	1,510	3,334	4,176	4,836

FINANCIAL RATIOS						
Year ending 30 June	Unit	2011A	2012E	2013E	2014E	2015E
VALUATION						
NPAT (adjusted)	\$m	7	10	32	49	53
EPS (adjusted)	c/sh	2.7	3.6	11.7	17.8	19.0
EPS growth	%	-	33%	221%	52%	7%
PER	x	15.9x	12.0x	3.7x	2.4x	2.3x
DPS	c/sh	-	-	-	-	-
Yield	%	-	-	-	-	-
EV/EBITDA	x	10.7x	5.1x	1.8x	1.2x	1.0x
PROFITABILITY RATIOS						
EBITDA margin	%	-	49%	60%	65%	65%
EBIT margin	%	-	24%	36%	40%	42%
Return on assets	%	-	12%	27%	29%	24%
Return on equity	%	-	15%	36%	38%	29%
LIQUIDITY & LEVERAGE						
Interest cover	x	-	-13.1x	>100x	86.1x	>100x
(Net debt) / cash	\$m	24	1	(12)	(2)	16
ND / E	%	0%	4%	20%	9%	0%
ND / (ND + E)	%	0%	4%	17%	8%	0%

ASSUMPTIONS						
Year ending 30 June	Unit	2011A	2012E	2013E	2014E	2015E
PRICES						
Gas	US\$/mcf	4.2	4.2	4.3	4.4	4.5
Oil (WTI)	US\$/bbl	87.5	87.5	90.0	90.6	93.2
NGL	US\$/bbl	43.8	43.8	45.0	45.3	46.6
CURRENCY						
AUD/USD		0.98	1.07	1.03	0.95	0.92
INFLATION						
US	%	2.2%	1.6%	1.4%	1.7%	1.9%

SOTP VALUATION						
	Net reserves (mmboe)	Unrisked NPV (\$m)	\$/sh	Risking 100%	Riskied NPV (\$m)	\$/sh
Southern Bakken	13	135	0.48	100%	135	0.48
Northern Bakken	5	45	0.16	100%	45	0.16
Twister DJ	2	26	0.09	75%	20	0.07
Silo & Bull Canyon DJ	7	59	0.21	75%	45	0.16
Other DJ + Wattenberg	6	38	0.14	100%	38	0.14
Pawnee & Arriba at \$100/acre	-	4	0.02	100%	4	0.02
Net asset value	32	309	1.10		287	1.02
Group / unallocated		(46)			(46)	
(Net debt) / cash		1			1	
Equity value		263			241	
NoSh - diluted (m)		281			281	
Value per share (\$/sh)		0.93			0.86	

VALUATION SENSITIVITIES					
OIL PRICES		US\$/bbl	\$m	\$/sh	% diff
-10%	Base	87.5	241	0.86	
	Low	78.8	170	0.61	-29%
+10%	High	96.3	312	1.11	29%
EXCHANGE RATE (long term)					
	Base	0.85	241	0.86	
+0.1	Low	0.95	214	0.76	-11%
-0.1	High	0.75	276	0.98	14%
WACC (post tax)					
	Base	12.0%	241	0.86	
	Low	13.0%	217	0.77	-10%
	High	11.0%	269	0.96	11%

EPS SENSITIVITIES						
OIL PRICES		2011A	2012E	2013E	2014E	2015E
Oil US\$87.5/bbl	Base	2.7	3.6	11.7	17.8	19.0
-10%	Low	2.7	2.5	8.9	13.9	14.9
+10%	High	2.7	4.8	14.5	21.7	23.2
EPS	Low	0%	-32%	-24%	-22%	-22%
	High	0%	32%	24%	22%	22%
PER	Low	15.9x	17.6x	4.9x	3.1x	2.9x
	High	15.9x	9.1x	3.0x	2.0x	1.9x

SOURCE: BELL POTTER SECURITIES ESTIMATES

Antares Energy (AZZ)

Recommendation

Spec Buy (unchanged)

Price

\$0.42

Target (12 months)

\$1.00 (unchanged)

Expected Return

Capital growth	138%
Dividend yield	0%
Total expected return	138%

Company Data & Ratios

Enterprise value	\$111m
Market cap	\$110m
Issued capital	263m
Free float	100%
Avg. daily vol. (52wk)	1,170,417
12 month price range	\$0.34 - \$0.56
GICS sector	Energy

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	0.38	0.47	0.48
Absolute (%)	10.5	-10.6	-11.6
Rel market (%)	8.5	-17.9	-1.0

Absolute Price



SOURCE: IRESS

Investment View

Among the Australian companies seeking to build a shale business in the US, AZZ stands out as one of the most undervalued. On our risked valuation of \$1.00/share, the stock should be trading at least double the current share price and it could triple over the next year or two.

- Focus on the Permian basin, Texas, one of the "hot" shale plays in the US
- Fully funded for the next three years
- Very cheap if management get it right
- EV per 2P reserves barrel is a low \$3.80
- PE of 7.8x in FY12, 4.5x in FY13

Obviously the market remains sceptical about the company's growth plans or the share price would be higher. While this has been disappointing, the management is getting on with the job of drilling and completing wells and early results from the first handful of wells are encouraging. The company has drilled a dozen wells since acquiring the properties earlier this year and as further results come through, we expect market recognition to grow.

Permian focused

AZZ operates in the low cost Permian basin of West Texas where an unusually thick sequence of oil rich shales and conventional reservoirs are stacked on top of each other. The Permian is one of the hottest shale plays in the US at the moment with over 180 drilling rigs active there, and a range of companies stepping up their involvement. For example Petrohawk, the company recently acquired by BHP for \$15B holds about one-third of its total acres in the Permian basin.

The Permian has historically been the largest oil producing region of Texas and current production is 900,000boepd. AZZ has picked up three promising projects with combined potential greater than 100mboe of reserves. The company is planning to grow its oil production from the current level of 700boepd to 2,000boepd next year and 3,000boepd in 2013. This growth profile is less risky than usually forecast from conventional oil & gas stocks due to the predictability and repeatability of shale plays.

Funding in place

AZZ has secured a US\$200m debt facility with Macquarie Bank for its growth projects in the Permian basin in Texas, and is now funded for the next three years, and probably to the stage where growth becomes self funding.

The fact that a major bank is willing to support the company's development drilling is also a vote of confidence in the asset. We value the company's key asset at the Southern Star shale oil project at \$239m or \$0.91/share out of the total stock valuation of \$1.00/share.

Table 3 - Financial summary

PROFIT AND LOSS						
Year ending 31 Dec	Unit	2011E	2012E	2013E	2014E	2015E
Revenue	\$m	10	70	117	128	148
Expense	\$m	(8)	(22)	(34)	(37)	(42)
EBITDA	\$m	2	48	83	91	106
Depreciation	\$m	(3)	(24)	(40)	(45)	(51)
EBIT	\$m	(1)	24	42	46	55
Net interest expense	\$m	(2)	(1)	(4)	(4)	(0)
PBT	\$m	(3)	23	39	43	55
Tax expense	\$m	2	(8)	(14)	(15)	(18)
NPAT (reported)	\$m	(1)	14	25	28	37
Abnormal items	\$m	-	-	-	-	-
NPAT (adjusted)	\$m	(1)	14	25	28	37

CASH FLOW						
Year ending 31 Dec	Unit	2011E	2012E	2013E	2014E	2015E
OPERATING CASHFLOW						
NPAT	\$m	(1)	14	25	28	37
Add: non-cash items	\$m	3	24	40	45	51
Change in working capital	\$m	52	(14)	(7)	(2)	(3)
Operating cash flow	\$m	54	25	58	71	85
INVESTING CASHFLOW						
Net PP&E	\$m	(105)	(66)	(64)	(50)	(52)
Exploration & evaluation	\$m	-	-	-	-	-
Other	\$m	-	-	-	-	-
Investing cash flow	\$m	(105)	(66)	(64)	(50)	(52)
FINANCING CASHFLOW						
Share capital	\$m	(12)	-	15	-	-
Interest bearing debt	\$m	-	33	(4)	(19)	(10)
Financing cash flow	\$m	(12)	33	11	(19)	(10)
Change in cash	\$m	(63)	(7)	5	1	23

BALANCE SHEET						
Year ending 31 Dec	Unit	2011E	2012E	2013E	2014E	2015E
ASSETS						
Cash	\$m	14	7	12	13	35
Accounts receivable	\$m	2	18	29	32	37
Oil & gas properties	\$m	105	146	170	176	177
Exploration & evaluation assets	\$m	0	0	0	0	0
Other	\$m	0	0	0	0	0
Total assets	\$m	121	171	211	221	250
LIABILITIES						
Accounts payable	\$m	5	7	12	13	15
Deferred tax liabilities	\$m	10	10	10	10	10
Borrowings	\$m	15	48	44	25	15
Provisions	\$m	0	0	0	0	0
Total liabilities	\$m	31	66	67	49	40
SHAREHOLDER'S EQUITY						
Share capital	\$m	91	91	106	106	106
Retained earnings	\$m	8	22	47	75	112
Reserves & outside equity	\$m	(8)	(8)	(8)	(8)	(8)
Total equity	\$m	91	105	144	172	209
Weighted average NoSh	m	275	263	270	278	278

PRODUCTION ESTIMATES						
Year ending 31 Dec	Unit	2011E	2012E	2013E	2014E	2015E
PROJECTS						
Southern Star	boepd	400	2,638	3,934	3,600	3,770
Big Star	boepd	-	365	544	680	793
Northern Star	boepd	-	182	454	612	737
Total	boepd	400	3,185	4,932	4,892	5,300
Total	mmboe	0.1	1.2	1.8	1.8	1.9

FINANCIAL RATIOS						
Year ending 31 Dec	Unit	2011E	2012E	2013E	2014E	2015E
VALUATION						
NPAT (adjusted)	\$m	(1)	14	25	28	37
EPS (adjusted)	c/sh	(0.2)	5.5	9.1	9.9	13.3
EPS growth	%		n.m	67%	9%	34%
PER	x	-212.6x	7.5x	4.5x	4.1x	3.1x
DPS	c/sh	-	-	-	-	-
Yield	%	-	-	-	-	-
EV/EBITDA	x	48.2x	2.3x	1.3x	1.2x	1.0x
PROFITABILITY RATIOS						
EBITDA margin	%		68%	71%	71%	72%
EBIT margin	%		34%	36%	36%	37%
Return on assets	%		10%	13%	13%	16%
Return on equity	%		15%	20%	17%	19%
LIQUIDITY & LEVERAGE						
(Net debt) / cash	\$m	(1)	(41)	(33)	(12)	20
ND / E	%	16%	46%	31%	15%	7%
ND / (ND + E)	%	14%	32%	24%	13%	7%

ASSUMPTIONS						
Year ending 31 Dec	Unit	2011E	2012E	2013E	2014E	2015E
PRICES						
Gas	US\$/mcf	3.5	3.8	3.9	4.0	4.0
Oil	US\$/bbl	98.1	87.5	90.0	90.6	93.2
NGL	US\$/bbl	49.1	43.8	45.0	45.3	46.6
CURRENCY						
AUD/USD		0.98	1.07	1.03	0.95	0.92
INFLATION						
US	%	2.2%	1.6%	1.4%	1.7%	1.9%

SOTP VALUATION						
	Net reserves (mmboe)	Unrisked NPV (\$m)	\$/sh	Risking	Risked NPV (\$m)	\$/sh
Southern Star (2P)	20	239	0.91	100%	239	0.91
Big Star (3P)	17	100	0.38	50%	50	0.19
Northern Star (3P)	28	124	0.47	50%	62	0.24
Net asset value	65	462	1.76		351	1.33
Group / unallocated		(74)			(74)	
(Net debt) / cash		(1)			(1)	
Equity value		388			276	
NoSh - diluted (m)		278			278	
Value per share (\$/sh)		1.40			0.99	

VALUATION SENSITIVITIES						
OIL PRICES		US\$/bbl	\$m	\$/sh	% diff	
	Base	98.1	276	0.99		
-10%	Low	78.8	201	0.69	-30%	
+10%	High	96.3	362	1.25	26%	
EXCHANGE RATE (long term)		AUD/USD	\$m	\$/sh	% diff	
	Base	0.85	276	0.99		
+0.1	Low	0.95	249	0.86	-13%	
-0.1	High	0.75	323	1.11	12%	
WACC (post tax)			\$m	\$/sh	% diff	
	Base	12.0%	276	0.99		
	Low	13.0%	251	0.87	-13%	
	High	11.0%	317	1.09	10%	

EPS SENSITIVITIES						
OIL PRICES		2011E	2012E	2013E	2014E	2015E
Oil US\$98.1/bbl	Base	(0.2)	5.5	9.1	9.9	13.3
-10%	Low	(0.6)	3.6	6.1	6.5	9.0
+10%	High	(0.2)	7.0	11.7	12.9	16.6
EPS	Low	212%	-34%	-34%	-35%	-32%
	High	19%	28%	29%	30%	25%
PER	Low	-68.1x	11.4x	6.8x	6.3x	4.5x
	High	-179.2x	5.9x	3.5x	3.2x	2.5x

SOURCE: BELL POTTER SECURITIES ESTIMATES

Nexus Energy (NXS)

Recommendation

Spec Buy (unchanged)

Price

\$0.22

Target (12 months)

\$0.39 (unchanged)

Expected Return

Capital growth	77%
Dividend yield	0%
Total expected return	77%

Company Data & Ratios

Enterprise value	\$441m
Market cap	\$292m
Issued capital	1,326m
Free float	100%
Avg. daily vol. (52wk)	8,092,849
12 month price range	\$0.11 - \$0.51
GICS sector	Energy

Disclosure: Bell Potter Securities acted as a co-manager of equity raisings for NXS in September 2009, October 2010 and April 2011 and received fees for that service.

Price Performance

	(1m)	(3m)	(12m)
Price (\$)	0.15	0.26	0.44
Absolute (%)	33.3	-21.6	-54.6
Rel market (%)	31.3	-28.8	-44.1

Absolute Price



Investment View

The key issue facing NXS shareholders is the Board structure which will be voted upon at the AGM on November 17. Former CEO Richard Cottee who stepped down on 22 September 2011 is seeking support from institutional and retail investors to be re-appointed. The outcome is difficult to predict but it will have an important bearing on the future of NXS. The future for the company is unusually difficult to predict and stock is therefore very high risk, which is reflected in our Spec Buy recommendation.

Board stability cannot be guaranteed and the ability to execute a deal on Crux remains uncertain. Our attraction to NXS has always been the +70mmbbl of liquids in Crux. However, the financial constraints and commercial complexities have frustrated the monetization of this asset so far. A deal would unlock value and take the stock towards our price target of \$0.39. However the clock is ticking ...

Crux decision going to the wire

The key asset in NXS' portfolio is the liquids rich gas discovery at Crux in the Browse basin. The company continues to state that it can bring in a partner and a \$1bn debt funding package in order to take FID before the end of this year. A deal to move forward would enable NXS to exercise the option with Shell to extend the liquids production period until 2024. This timetable is obviously tight and the key risk in NXS.

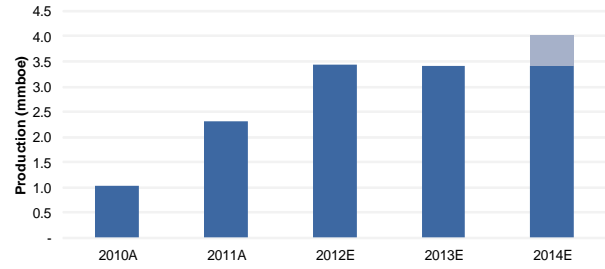
Valuation scenarios

NXS is difficult to value as the Crux project value will depend on a number of possible outcomes to this development, in which they currently own 85% of the liquids.

- Our base case valuation of \$0.39/share assumes that NXS retains a 20% interest in the development and that an incoming partner funds the company's share of capex, with first production in 2014.
- The company is actually hoping to sell 35% for cash and that this will enable the company to retain a 50% stake and operatorship of the project. This would on our numbers lead to a valuation of \$0.63/share.
- Another option is that Shell takes over operatorship of Crux, which would probably lead to lengthy delays until first production, possibly until the next decade. Our valuation of NXS would be about \$0.30/share on that basis.

The outlook for NXS is clearly very uncertain. Hopefully the market will get better clarity of the Crux project development and Board and management structure in the short term. NXS only suits investors with a high tolerance to risk.

Table 4 - Financial summary

PROFIT AND LOSS							FINANCIAL RATIOS						
Year ending 30 Jun	Unit	2010A	2011A	2012E	2013E	2014E	Year ending 30 Jun	Unit	2010A	2011A	2012E	2013E	2014E
PROFIT AND LOSS							FINANCIAL RATIOS						
Revenue	\$m	29	68	99	102	167	VALUATION						
Operating expense	\$m	(30)	(67)	(63)	(63)	(88)	Reported NPAT	\$m	1	(39)	(19)	(11)	16
EBITDA	\$m	(1)	1	36	38	79	Adjusted NPAT	\$m	1	31	(19)	(11)	16
D&A	\$m	(18)	(39)	(31)	(31)	(34)	Adjusted EPS	c/sh	0.08	2.91	(1.40)	(0.83)	1.18
EBIT	\$m	(19)	(38)	5	7	45	EPS growth	%	n.m	n.m	n.m	n.m	n.m
Net interest expense	\$m	(32)	(36)	(32)	(23)	(22)	PER	x	n.m	n.m	n.m	n.m	16.7x
PBT	\$m	(51)	(74)	(27)	(16)	23	OpCFPS (ex. abnormals)	c/sh	(3.0)	(1.0)	(0.7)	1.5	4.4
Tax expense	\$m	52	105	8	5	(7)	Price/OpCFPS	x	-6.6x	-19.0x	-29.6x	13.2x	4.5x
NPAT (underlying)	\$m	1	31	(19)	(11)	16	DPS	c/sh	-	-	-	-	-
Abnormal items	\$m	0	(70)	-	-	-	Yield	%	-	-	-	-	-
NPAT (reported)	\$m	1	(39)	(19)	(11)	16	EV/EBITDA	x	n.m	420.8x	11.6x	10.6x	4.4x
CASH FLOW							PROFITABILITY RATIOS						
Year ending 30 Jun	Unit	2010A	2011A	2012E	2013E	2014E	EBITDA margin	%	-5%	1%	37%	38%	47%
OPERATING CASHFLOW							EBIT margin	%	-66%	-56%	5%	7%	27%
NPAT (reported)	\$m	1	(39)	(19)	(11)	16	Return on assets	%	-	-4%	-2%	-1%	2%
Add: non-cash items	\$m	24	129	31	31	34	Return on equity	%	-	-7%	-3%	-2%	3%
Change in working capital	\$m	7	(5)	(21)	0	10	Dividend cover	x	-	-	-	-	-
Other	\$m	(58)	(96)	-	-	-	LIQUIDITY & LEVERAGE						
Operating cash flow	\$m	(26)	(11)	(9)	20	60	(Net debt) / cash	\$m	(265)	(150)	(160)	(142)	(85)
INVESTING CASHFLOW							ND / E	%	50%	24%	26%	24%	14%
Net PP&E	\$m	(0)	(13)	(2)	(2)	(3)	ND / (ND + E)	%	33%	19%	21%	19%	12%
Exploration & evaluation	\$m	(90)	-	-	-	-	ASSUMPTIONS						
Other	\$m	2	1	-	-	-	Year ending 30 Jun	Unit	2010A	2011A	2012E	2013E	2014E
Investing cash flow	\$m	(88)	(13)	(2)	(2)	(3)	Oil price (Brent)	US\$/bbl	75.3	90.4	95.0	100.0	100.0
FINANCING CASHFLOW							AUD / USD	A\$/GJ	0.88	0.98	1.07	1.03	0.95
Share capital	\$m	73	131	-	-	-	SUM-OF-PARTS						
Dividends paid	\$m	-	-	-	-	-		Ownership	Net mmboe	NPV (\$m)	A\$/sh	% of NPV	A\$/boe
Debt drawdown	\$m	46	(70)	(0)	(24)	(32)	Longtom	100%	41	325	0.24	48%	7.9
Other	\$m	(35)	-	-	-	-	Crux liquids stripping	20%	14	357	0.27	52%	24.7
Financing cash flow	\$m	84	61	(0)	(24)	(32)	Static assets & exploration	-	-	-	-	-	-
Change in cash	\$m	(30)	38	(11)	(6)	25	Net asset value	683	-	(160)	(0.12)	-31%	-
BALANCE SHEET							Net debt	(160)	(0.12)	-31%	-	-	-
Year ending 30 Jun	Unit	2010A	2011A	2012E	2013E	2014E	Equity value	522	-	-	-	-	-
ASSETS							NoSh (m)	1,329	-	-	-	-	-
Cash & cash equivalents	\$m	25	63	51	45	70	Value per share (\$/sh)	0.39	-	-	-	-	
Accounts receivable	\$m	18	15	64	66	109	VALUATION SENSITIVITIES						
Oil & gas properties	\$m	745	671	642	613	582	OIL PRICE						
Exploration & evaluation assets	\$m	17	10	10	10	10	US\$/bbl	A\$m	A\$/sh	% diff			
Other	\$m	115	205	205	205	205	Base	90.4	522	0.39			
Total assets	\$m	919	964	973	940	976	-10%	Low	81.3	439	0.33	-16%	
LIABILITIES							+10%	High	99.4	606	0.46	16%	
Accounts payable	\$m	23	52	79	81	134	EXCHANGE RATE (long term)						
Borrowings	\$m	290	212	212	188	156	Base	0.85	522	0.39			
Provisions	\$m	36	46	46	46	46	+0.1	Low	0.95	467	0.35	-11%	
Other	\$m	42	22	22	22	22	-0.1	High	0.75	592	0.45	13%	
Total liabilities	\$m	391	332	359	337	357	WACC (post tax)						
SHAREHOLDER'S EQUITY							%	A\$m	A\$/sh	% diff			
Share capital	\$m	545	689	689	689	689	Base	11.4%	522	0.39			
Retained earnings	\$m	(25)	(64)	(82)	(93)	(77)	Low	12.6%	492	0.37	-6%		
Reserves	\$m	9	8	8	8	8	High	10.3%	555	0.42	6%		
Total equity	\$m	529	633	614	603	619	PRODUCTION (NET)						
Weighted average NoSh	m	877	1,056	1,327	1,347	1,365	Year ending 30 Jun	Unit	2010A	2011A	2012E	2013E	2014E
PRODUCTION (NET)							Gas	PJ	6.2	14.4	21.2	21.0	21.0
Gas	PJ	6.2	14.4	21.2	21.0	21.0	Condensate	mmbbl	0.1	0.1	0.2	0.2	0.8
Condensate	mmbbl	0.1	0.1	0.2	0.2	0.8	Longtom	mmboe	1.0	2.3	3.4	3.4	3.4
Longtom	mmboe	1.0	2.3	3.4	3.4	3.4	Crux liquids stripping	mmboe	-	-	-	-	0.6
Crux liquids stripping	mmboe	-	-	-	-	0.6	Total production	mmboe	1.0	2.3	3.4	3.4	4.0
Total production	mmboe	1.0	2.3	3.4	3.4	4.0							

SOURCE: BELL POTTER SECURITIES ESTIMATES

Jupiter Energy (JPR)

Recommendation

Spec Buy (unchanged)

Price

\$0.56

Target (12 months)

\$2.42 (unchanged)

Expected Return

Capital growth	332%
Dividend yield	0%
Total expected return	332%

Company Data & Ratios

Enterprise value	\$62m
Market cap	\$65m
Issued capital	116m
Free float	69%
Avg. daily vol. (52wk)	6,353,426
12 month price range	\$0.48 - \$1.13
GICS sector	Energy

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	0.60	0.65	0.51
Absolute (%)	-2.5	-9.3	14.7
Rel market (%)	-4.5	-16.6	25.2

Absolute Price



SOURCE: IRESS

Investment View

We maintain a Spec Buy on JPR as it trades on a massive discount to its valuation of \$2.42/share. JPR must be one of the cheapest stock on the ASX for certified 2P reserves of 24.2mmbbl at around \$2.50/bbl. Our DCF valuation of the 2P reserves is \$9.65/bbl and represents \$1.96/share. The resource potential of an estimated 85mmbbl does not appear high risk, but requires drilling. We understand there is a perception of political risk in Kazakhstan but the discount is excessive in our view.

- Undervalued Kazakh oil reserves
- AIM listing 9th November should help re-rating of stock
- Production licenses for first two oil wells are imminent
- Flow rates from 3rd oil well are also due soon
- Kazakhstan discount is too big!

AIM listing could lift share price

JPR will be listing on the AIM market on the 9 November 2011. We believe the AIM is a better market than the ASX for a company active in Kazakhstan as Australian investors are typically risk averse to countries that they are not familiar with. Furthermore, an AIM listing could be a share price catalyst for the stock. It will be interesting to see how the volume of trading migrates to AIM in coming months.

We expect a strengthening share price, although this may be held back somewhat due to the need for the company to raise further equity capital.

Two Trial Production Licenses approved

JPR has announced that Trial Production Licenses (TPL) have been approved by the Kazakh Central Development Committee for wells J-50 and J-52. While production won't start immediately as other steps are required, this is very good news for JPR shareholders. The ability to commence oil production and exports of about 900bopd will signal the commencement of first cash flows for the company before year end. Subsequent TPLs should also be approved much quicker following the drilling and testing of upcoming wells. TPLs are for individual wells and valid for three years, ahead of a full field Production License.

Test results of oil flows from J-51 soon

We expect that JPR will soon release some of the initial flow rates from the J-51 well in Block 31. The well should flow strongly, as it had a net/gross oil column 20% greater than the previous two wells on this oil field. We would not be surprised if the well flows a stabilised rate over 1,000bopd on a 12mm choke, and perhaps 600-700bopd on a 8mm choke. Our current modelling assumes initial production rates of 450bopd per well. If the authorities allow JPR to produce the field at higher rates, it will be very positive for the valuation.

Table 5 - Financial summary

PROFIT AND LOSS						FINANCIAL RATIOS					
Year ending 30 Jun	Unit	2011A	2012E	2013E	2014E	Year ending 30 Jun	Unit	2011A	2012E	2013E	2014E
Revenue	\$m	-	26	56	111	VALUATION					
Operating expense	\$m	(4)	(16)	(27)	(45)	Reported NPAT	\$m	(5)	(1)	3	16
EBITDA	\$m	(4)	10	28	66	Underlying NPAT	\$m	(4)	(1)	3	16
Depreciation	\$m	(0)	(2)	(4)	(8)	Underlying EPS	c/sh	(0.3)	(1.1)	2.7	14.1
EBIT	\$m	(4)	8	24	58	EPS growth	%		274%	n.m	432%
Net interest expense	\$m	0	1	0	1	PER	x	-186.2x	-49.8x	21.1x	4.0x
PBT	\$m	(4)	9	25	59	OpCFPS (ex. abnormals)	c/sh	(0.3)	(2.0)	4.4	15.7
Tax expense	\$m	-	(10)	(21)	(43)	Price/OpCFPS	x	-165.1x	-28.7x	12.6x	3.6x
NPAT (underlying)	\$m	(4)	(1)	3	16	DPS	c/sh	-	-	-	-
Abnormal items	\$m	(1)	-	-	-	Yield	%	-	-	-	-
NPAT (reported)	\$m	(5)	(1)	3	16	EV/EBITDA	x	-181.6x	6.4x	2.6x	1.2x
CASH FLOW						PROFITABILITY RATIOS					
Year ending 30 Jun	Unit	2011A	2012E	2013E	2014E	EBITDA margin	%		39%	51%	59%
OPERATING CASHFLOW						EBIT margin	%		31%	44%	53%
NPAT	\$m	(5)	(1)	3	16	Return on assets	%	-12%	-3%	5%	16%
Add: non-cash items	\$m	0	2	6	10	Return on equity	%	-12%	-3%	7%	31%
Change in working capital	\$m	0	(3)	(4)	(8)	Dividend cover	x	-	-	-	-
Operating cashflow	\$m	(4)	(2)	5	18	LIQUIDITY & LEVERAGE					
INVESTING CASHFLOW						Net debt / (cash)	\$m	(14)	0	8	16
Net PP&E	\$m	(1)	(12)	(10)	(21)	ND / E	%	-34%	1%	19%	26%
Exploration & evaluation	\$m	(8)	-	(5)	(5)	ND / (ND + E)	%	-52%	1%	16%	21%
Other	\$m	-	-	-	-	ASSUMPTIONS					
Investing cash flow	\$m	(9)	(12)	(15)	(26)	Year ending 30 Jun	Unit	2011A	2012E	2013E	2014E
FINANCING CASHFLOW						Oil price (Brent)	US\$/bbl	97.5	97.5	100.0	100.6
Share capital	\$m	27	-	2	-	AUD / USD		1.03	1.07	0.98	0.94
Dividends paid	\$m	-	-	-	-	SUM-OF-PARTS					
Interest-bearing debt	\$m	-	8	17	24	2012E valuation					
Financing cash flow	\$m	27	8	19	24	Block 31 certified reserve (2P)	gross mmbbl	Net mmbbl	NPV (\$m)	\$/boe	\$/sh
Change in cash	\$m	13	(6)	9	17	Block 31 contingent resources (3C)	85.0	85.0	85	1.00	0.71
BALANCE SHEET						Total Reserves & Resources	109.2	109.2	319	2.92	2.67
Year ending 30 Jun	Unit	2011A	2012E	2013E	2014E	(Net debt) / cash			3		0.03
ASSETS						Corporate costs			(33)		(0.28)
Cash	\$m	14	8	17	33	Equity value			289		
Accounts receivable	\$m	1	8	17	33	Diluted NoSh (m)			119		
Oil & gas properties	\$m	0	10	16	29	Total					2.42
Exploration & evaluation assets	\$m	25	25	28	30	VALUATION SENSITIVITIES					
Other	\$m	1	1	1	1	OIL PRICE					
Total assets	\$m	42	52	78	127		US\$/bbl	A\$m	A\$/sh	% diff	
LIABILITIES						-10%	Base	97.5	289	2.42	
Accounts payable	\$m	1	3	6	11	+10%	Low	87.8	243	2.04	-16%
Tax payable	\$m	-	1	3	6		High	107.3	339	2.84	17%
Borrowings	\$m	-	8	25	49	EXCHANGE RATE (long term)					
Provisions	\$m	0	0	0	0		AUD/USD	A\$m	A\$/sh	% diff	
Other	\$m	-	-	-	-		Base	0.85	289	2.42	
Total liabilities	\$m	1	12	34	66	+0.1	Low	0.95	239	2.01	-17%
SHAREHOLDER'S EQUITY						-0.1	High	0.75	347	2.91	20%
Share capital	\$m	71	71	73	73	WACC (post tax)					
Retained earnings	\$m	(28)	(30)	(26)	(10)		%	A\$m	A\$/sh	% diff	
Reserves	\$m	(2)	(2)	(2)	(2)		Base	12%	289	2.42	
Total equity	\$m	41	40	44	61		Low	13%	273	2.29	-6%
Weighted average NoSh	m	1,312	116	116	116		High	11%	307	2.58	6%
PRODUCTION						EPS SENSITIVITIES					
Year ending 30 Jun	Unit	2011A	2012E	2013E	2014E	OIL PRICE					
Total	mmbbl	16	329	624	1,186	US\$97.5/bbl	Base	(0.3)	(1.1)	2.7	14.1
						-10%	Low	(0.3)	(2.4)	0.3	9.3
						+10%	High	(0.3)	(0.0)	5.0	18.8
						EPS	Low	0%	116%	-90%	-34%
							High	0%	-100%	87%	33%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Oil Search (OSH)

Recommendation

Buy (unchanged)

Price

\$6.36

Target (12 months)

\$7.49 (unchanged)

Expected Return

Capital growth	17.7%
Dividend yield	0.6%
Total expected return	18.3%

Company Data & Ratios

Enterprise value	\$8,094m
Market cap	\$8,428m
Issued capital	1,325m
Free float	100%
Avg. daily vol. (52wk)	5,061,893
12 month price range	\$5.43 - \$7.64
GICS sector	Energy

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	5.93	6.26	6.82
Absolute (%)	7.6	1.9	-6.5
Rel market (%)	5.5	-5.4	4.0

Absolute Price



SOURCE: IRESS

Investment View

OSH is a standout in the Australian energy sector with PNG LNG becoming a game changer for the company. The robust economics of PNG LNG means it can withstand an increase in cost and still remain competitive. We believe the announcement of an expansion train is on the horizon with drilling commencing shortly in a country which remains underexplored. The current share price presents a free option on T3 and catalysts over the next 6 to 12 months should also provide further upside to the share price. Buy recommendation with a Target Price of \$7.49/share and key reasons for this view can be summarised as follows:

- PNG LNG is a very high quality project
- The project is transformational for OSH and PNG
- Production will lift 4 fold
- Excellent expansion opportunities, could lead to a share price of c.\$10.00

Risks include cost blow-outs, delays, landowner disputes or political changes, but we have allowed for the first two risks. The other two risks tend to generate short term noise, but have limited impact on operations.

A Standout in the crowd

The prospects for OSH are promising with medium term earnings highly leveraged to the oil price and the company set to enter transformational growth from 2014. Not only will production increase by four fold when PNG LNG delivers first gas, the robust economics of the ExxonMobil-led project also far outweigh any of its Australian peers. The global LNG market is looking increasingly uncertain and only economically robust projects can compete in unfavourable environments. We believe OSH, through PNG LNG will be able to reap maximum profits in a sellers' market but also remain competitive in less favourable environments.

PNG LNG – a project that can weather the storms

A project IRR of 20% is outstanding compared to its Australian peers with IRR's in the low to mid 10's. The investment case for an expansion train is even more compelling with the 3rd train realising an IRR up to 34% if feedgas can be sourced from nearby fields. PNG LNG comes from an onshore conventional source which eliminates the risk of capital intensive offshore developments and avoids the increasing challenges that unconventional CSG projects are facing. Its value is further enhanced by the high liquids content and lucrative sales agreements. Furthermore, if the first two trains (T1 & T2) can be delivered on time and on budget, we estimate their cash flows have the capacity to fund the development of T3. As such, a capital raising may not be required.

Table 6 - Financial summary

PROFIT AND LOSS									FINANCIAL RATIOS								
Year ending 31 Dec	Unit	2010A	2011E	2012E	2013E	2014E	2015E	2016E	Year ending 31 Dec	Unit	2010A	2011E	2012E	2013E	2014E	2015E	2016E
Revenue	US\$m	584	664	564	556	502	1,723	2,310	EPS (reported)	A\$/sh	0.154	0.146	0.105	0.119	0.150	0.565	0.920
Operating expense	US\$m	(87)	(110)	(112)	(113)	(110)	(272)	(276)	EPS (growth)	%		-5%	-28%	14%	26%	276%	63%
Royalties	US\$m	(10)	(13)	(11)	(11)	(10)	(34)	(46)	DPS	A\$/sh	0.04	0.04	0.04	0.04	0.04	0.14	0.14
Corporate	US\$m	(17)	(20)	(19)	(19)	(17)	(58)	(76)	Valuation								
Total expense	US\$m	(114)	(143)	(142)	(143)	(137)	(364)	(398)	EV/EBITDA	x	24.2x	18.8x	24.3x	23.2x	22.5x	6.0x	4.3x
EBITDAX	US\$m	470	520	422	413	365	1,359	1,912	PER	x	41.7x	44.1x	61.5x	54.0x	42.8x	11.4x	7.0x
Exploration	US\$m	(131)	(85)	(85)	(60)	-	-	-	Yield	%	0.68%	0.61%	0.58%	0.64%	0.66%	2.11%	2.20%
EBITDA	US\$m	338	435	337	353	365	1,359	1,912	Profitability								
D&A	US\$m	(50)	(53)	(51)	(49)	(54)	(202)	(266)	EBITDA margin	%	58%	66%	60%	64%	73%	79%	83%
EBIT	US\$m	289	382	286	304	311	1,157	1,646	EBIT margin	%	49%	58%	51%	55%	62%	67%	71%
Net interest expense	US\$m	(1)	13	9	6	3	(196)	(146)	ROA	%		4%	3%	2%	3%	8%	11%
PBT	US\$m	288	395	295	309	314	960	1,500	ROE	%		7%	5%	5%	6%	18%	24%
Tax expense	US\$m	(92)	(197)	(148)	(155)	(126)	(288)	(450)	Liquidity & leverage								
APT tax	US\$m	-	-	-	-	-	-	-	Net debt / (cash)	US\$m	(334)	755	1,706	2,582	3,578	2,473	1,122
NPAT (underlying)	US\$m	196	197	148	155	188	672	1,050	ND / E	%	-12%	25%	54%	78%	103%	62%	23%
Abnormal items	US\$m	(11)	-	-	-	-	-	-	ND / (ND + E)	%	-14%	20%	35%	44%	51%	38%	19%
NPAT (reported)	US\$m	186	197	148	155	188	672	1,050									
FX translation diff.	US\$m	(1)	-	-	-	-	-	-									

CASH FLOW									ASSUMPTIONS								
Year ending 31 Dec	Unit	2010A	2011E	2012E	2013E	2014E	2015E	2016E	Year ending 31 Dec	Unit	2010A	2011E	2012E	2013E	2014E	2015E	2016E
NPAT (reported)	US\$m	186	197	148	155	188	672	1,050	AUD / USD		0.92	1.03	1.07	0.98	0.94	0.89	0.85
Add: Depreciation	US\$m	50	53	51	49	54	202	266	Oil (Brent)	US\$/bbl	79.6	105.6	97.5	100.0	100.6	103.2	105.8
Add: non-cash items	US\$m	131	85	85	60	-	20	20									
Chg in working capital	US\$m	32	68	(31)	(3)	(17)	379	182									
Operating cash flow	US\$m	398	403	253	262	225	1,273	1,518									
Net PP&E	US\$m	(1,358)	(1,493)	(1,203)	(1,137)	(1,221)	(6)	(6)									
Other	US\$m	(0)	-	-	-	-	-	-									
Investing cash flow	US\$m	(1,358)	(1,493)	(1,203)	(1,137)	(1,221)	(6)	(6)									
Share capital	US\$m	38	53	53	53	53	-	-									
Dividend payments	US\$m	(34)	(53)	(53)	(53)	(54)	(161)	(161)									
Debt drawdown	US\$m	930	724	619	619	730	350	(244)									
Other	US\$m	1	-	-	-	-	-	-									
Financing cash flow	US\$m	935	724	619	619	729	189	(405)									
Change in cash	US\$m	(24)	(366)	(331)	(257)	(267)	1,456	1,107									

BALANCE SHEET									VALUATION								
Year ending 31 Dec	Unit	2010A	2011E	2012E	2013E	2014E	2015E	2016E	Year ending 31 Dec	Unit	2010A	2011E	2012E	2013E	2014E	2015E	2016E
Assets																	
Cash	US\$m	1,264	898	567	310	43	1,499	2,606									
Accounts receivable	US\$m	91	73	62	61	55	190	254									
Oil & gas assets	US\$m	2,311	3,581	4,563	5,551	6,719	6,503	6,223									
Exploration assets	US\$m	282	367	452	492	492	492	492									
Other	US\$m	341	347	337	336	331	453	512									
Total assets	US\$m	4,289	5,266	5,981	6,750	7,640	9,136	10,086									
Liabilities																	
Accounts payable	US\$m	220	265	226	222	201	689	924									
Borrowings	US\$m	930	1,653	2,273	2,892	3,621	3,971	3,728									
Provisions	US\$m	117	117	117	117	117	117	117									
Other	US\$m	224	234	222	221	214	361	431									
Total liabilities	US\$m	1,490	2,270	2,837	3,452	4,154	5,139	5,200									
Equity																	
Share capital	US\$m	1,611	1,664	1,717	1,770	1,823	1,823	1,823									
Retained earnings	US\$m	1,171	1,316	1,410	1,512	1,647	2,158	3,046									
Reserves	US\$m	17	17	17	17	17	17	17									
Total equity	US\$m	2,798	2,996	3,144	3,298	3,486	3,997	4,886									
Weighted avg NoSh	m	1,306	1,317	1,325	1,332	1,339	1,343	1,343									

	Unrisked			CoS	Risked			
	mmboe	NPV	A\$/sh		mmboe	NPV	\$/sh	% of NPV
Kutubu	15	606	0.46	100%	15	606	0.46	6%
Moran	19	530	0.40	100%	19	530	0.40	5%
SE Mananda	1	4	0.00	100%	1	4	0.00	0%
Gobe Main	0	7	0.01	100%	0	7	0.01	0%
SE Gobe	0	14	0.01	100%	0	14	0.01	0%
Hides GTE	11	65	0.05	100%	11	65	0.05	1%
PNG LNG T1 & 2	555	7,011	5.28	100%	555	7,011	5.28	70%
PNG LNG T3	147	2,137	1.61	40%	59	855	0.64	9%
Mananda 5	25	250	0.19	40%	10	100	0.08	1%
2C resources	318	3,177	2.39	20%	64	635	0.48	6%
Net asset value		13,801	10.39			9,827	7.40	
Group		(414)	(0.31)			(414)	(0.31)	
(Net debt)/cash		532	0.40			532	0.40	
Equity value		13,919	10.48			9,945	7.49	

Legend for Total production (mmboe):

- SE Gobe
- Hides GTE
- SE Mananda
- Moran
- Kutubu
- PNG LNG T1 & 2
- PNG LNG T3

SOURCE: BELL POTTER SECURITIES ESTIMATES

Woodside Petroleum (WPL)

Recommendation
Accumulate (Buy)
Price
\$36.20
Target (12 months)
\$40.10 (previously \$40.00)

Expected Return

Capital growth	10.8%
Dividend yield	2.9%
Total expected return	13.7%

Company Data & Ratios

Enterprise value	\$32,770m
Market cap	\$28,345m
Issued capital	783m
Free float	76%
Avg. daily vol. (52wk)	3,643,039
12 month price range	\$29.7 - \$50.9
GICS sector	Energy

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	35.08	34.55	45.75
Absolute (%)	2.9	4.5	-21.1
Rel market (%)	0.8	-2.9	-10.6

Absolute Price



SOURCE: IRESS

Investment View

WPL is the only major LNG producer in Australia for the next three years, with a near term step-change through the Pluto foundation project due to start in less than six months. The market is not factoring in any Pluto expansion(s) or the upside potential at Browse LNG or Sunrise LNG, and perhaps rightly so. Past management disappointed on the Pluto project delivery and it's up to the new MD Peter Coleman to manage the market expectations better.

We believe fundamental value exists in WPL's growth projects but significant progress is required on all fronts. The likely sell-down of Shell's remaining 24% stake in WPL is acting as an overhang and the removal of this could provide some support to the share price. Given the recent recovery in the share price, we have reduced our recommendation to Accumulate from Buy with a new Price Target of \$40.10/share due to mark-to-market on oil prices and currency.

All eyes on Pluto

WPL's recent quarterly stated commissioning at Pluto is progressing to plan. First LNG cargo is still estimated for March 2012, and although there is some nervousness in the market on this timeline, we don't believe WPL would make such a statement if it was at risk. The expansion plans at Pluto continue, with six wells to be drilled between now and mid-2012 while third party supply options with parties such as BHP and Hess continue. A deal with BHP (and ExxonMobil) on Scarborough gas supply could suddenly provide clarity and certainty over a multiple LNG Train expansion at Pluto. Such an outcome would propel the share price much higher.

Browse basin is still in the mix

WPL owns about 47% of the 13Tcf + 360mmbbl Browse gas project. The JV is not exactly aligned, but the last renewal of the license stipulated that they spend \$1.25B on feasibility studies to demonstrate whether it's commercial or not by mid 2012. As a \$25 or \$30B capex project to produce 12mtpa of LNG, it is a serious project that could be a positive for the WPL share price in 2012, as there is little recognition for it in the current share price.

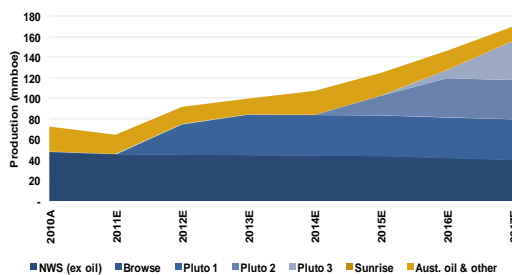
Even Sunrise could get a new chance

WPL's new MD Peter Coleman has reportedly had a productive meeting with the East Timor Government on the development options on the Sunrise gas project in the Timor Sea. This is a smaller 5 Tcf gas field with liquids of 240mmbbl ideally suited for FLNG. However, the East Timor Government has so far insisted on a pipeline to East Timor for an onshore based LNG project. WPL owns 34% of the project and we put a low likelihood of this project going ahead soon due to the political machinations. Any change to this stalemate would be a positive for WPL.

Table 7 - Financial summary

PROFIT AND LOSS										FINANCIAL RATIOS									
Year ending 31 Dec	Unit	2010A	2011E	2012E	2013E	2014E	2015E	2016E	2017E	Year ending 31 Dec	Unit	2010A	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Revenue	US\$m	4,193	4,380	5,959	7,270	8,063	9,410	10,505	10,160	VALUATION									
Operating expense	US\$m	(1,190)	(1,177)	(1,769)	(2,056)	(2,305)	(3,047)	(3,136)	(3,044)	Reported NPAT	US\$m	1,575	1,580	1,970	2,513	2,893	3,145	3,699	3,687
EBITDA	US\$m	3,003	3,203	4,189	5,215	5,758	6,363	7,369	7,117	Adjusted NPAT	US\$m	1,418	1,580	1,970	2,513	2,893	3,145	3,699	3,687
Depreciation	US\$m	(749)	(630)	(962)	(1,062)	(1,181)	(1,388)	(1,547)	(1,476)	Adjusted EPS	A\$/sh	1.99	1.93	2.25	3.05	3.60	4.14	5.07	5.05
EBIT	US\$m	2,254	2,573	3,227	4,153	4,577	4,975	5,822	5,640	EPS growth	%	-2.9%	-3.0%	16.7%	35.2%	18.2%	14.9%	22.6%	-0.3%
Net interest expense	US\$m	18	(121)	(113)	(188)	(78)	(119)	(194)	(70)	PER	x	18.5x	19.1x	16.3x	12.1x	10.2x	8.9x	7.3x	7.3x
PBT	US\$m	2,272	2,451	3,114	3,965	4,498	4,856	5,627	5,570	OpCFPS	A\$/sh	2.96	2.43	3.65	4.72	5.28	6.31	7.68	7.31
PRRT	US\$m	(165)	(195)	(301)	(375)	(365)	(363)	(343)	(303)	Price/OpCFPS	x	12.5x	15.2x	10.1x	7.8x	7.0x	5.8x	4.8x	5.0x
Tax expense	US\$m	(532)	(677)	(844)	(1,077)	(1,240)	(1,348)	(1,585)	(1,580)	DPS	A\$/sh	1.14	1.05	1.22	1.65	1.98	2.28	2.79	2.78
NPAT (reported)	US\$m	1,575	1,580	1,970	2,513	2,893	3,145	3,699	3,687	Yield	%	3.1%	2.8%	3.3%	4.5%	5.4%	6.2%	7.6%	7.5%
Abnormal items	US\$m	(157)	-	-	-	-	-	-	-	EV/EBITDA	x	10.8x	10.5x	8.2x	6.7x	6.2x	5.5x	4.4x	4.4x
NPAT (adjusted)	US\$m	1,418	1,580	1,970	2,513	2,893	3,145	3,699	3,687	EV/2P reserves	US\$/boe	19.7	20.4	20.8	21.2	21.7	21.1	19.6	19.0
CASH FLOW										PROFITABILITY RATIOS									
Year ending 31 Dec	Unit	2010A	2011E	2012E	2013E	2014E	2015E	2016E	2017E	EBITDA margin	%	72%	73%	70%	72%	71%	68%	70%	70%
OPERATING CASHFLOW										EBIT margin	%	54%	59%	54%	57%	57%	53%	55%	56%
NPAT	US\$m	1,577	1,580	1,970	2,513	2,893	3,145	3,699	3,687	Return on assets	%	7%	8%	10%	10%	10%	11%	11%	
Add: non-cash items	US\$m	1,345	867	1,176	1,281	1,406	1,618	1,783	1,718	Return on equity	%	12%	12%	13%	14%	15%	16%	15%	
Change in working capital	US\$m	(818)	(323)	183	152	92	156	127	(40)	Dividend cover	x	1.8x	1.8x	1.8x	1.8x	1.8x	1.8x	1.8x	
Operating cash flow	US\$m	2,104	1,989	3,190	3,895	4,240	4,793	5,600	5,334	LIQUIDITY & LEVERAGE									
INVESTING CASHFLOW										Net debt (ND) / (cash)	US\$m	3,952	4,425	4,112	3,870	4,274	3,238	696	(199)
Net PP&E	US\$m	(3,649)	(2,903)	(2,569)	(3,110)	(2,707)	(1,638)	(703)	(1,924)	ND / E	%	34%	31%	25%	21%	15%	3%	-1%	
Exploration & evaluation	US\$m	-	(474)	(427)	(438)	(449)	(460)	(472)	(484)	ND / (ND + E)	%	25%	24%	20%	17%	18%	13%	3%	-1%
Other	US\$m	708	-	-	-	-	-	-	-	ASSUMPTIONS									
Investing cash flow	US\$m	(2,941)	(3,377)	(2,997)	(3,548)	(3,157)	(2,098)	(1,175)	(2,407)	Year ending 31 Dec	Unit	2010A	2011E	2012E	2013E	2014E	2015E	2016E	2017E
FINANCING CASHFLOW										Oil price	US\$/bbl	79.6	105.6	97.5	100.0	100.6	103.2	105.8	108.4
Share capital (incl. DRP)	US\$m	1,197	1,751	1,125	1,125	-	-	-	-	WA gas price	A\$/GJ	4.6	4.7	4.8	4.9	5.0	5.2	5.3	5.4
Dividends paid	US\$m	(547)	(836)	(1,005)	(1,231)	(1,487)	(1,660)	(1,882)	(2,031)	LNG price	US\$/mmbtu	9.6	10.4	9.6	12.0	12.1	12.4	12.7	13.0
Short term debt	US\$m	-	-	-	-	-	-	-	-	AUD / USD		0.92	1.03	1.07	0.98	0.94	0.89	0.85	0.85
Long term debt	US\$m	(42)	-	-	-	-	-	-	-	SUM-OF-PARTS									
Financing cash flow	US\$m	608	915	120	(106)	(1,487)	(1,660)	(1,882)	(2,031)										
Change in cash	US\$m	(229)	(473)	313	242	(403)	1,035	2,542	896										
BALANCE SHEET																			
Year ending 31 Dec	Unit	2010A	2011E	2012E	2013E	2014E	2015E	2016E	2017E										
ASSETS																			
Cash	US\$m	963	490	803	1,045	641	1,677	4,219	5,114										
Accounts receivable	US\$m	439	588	800	977	1,083	1,264	1,411	1,365										
Oil & gas properties	US\$m	16,517	18,925	20,670	22,768	24,445	24,820	23,985	24,463										
Exploration assets	US\$m	1,801	2,038	2,252	2,471	2,695	2,925	3,161	3,403										
Other	US\$m	476	476	476	476	476	476	476	476										
Total assets	US\$m	20,196	22,517	25,001	27,736	29,341	31,162	33,252	34,822										
LIABILITIES																			
Accounts payable	US\$m	1,234	876	1,192	1,454	1,613	1,882	2,101	2,032										
Tax payable	US\$m	35	219	298	364	403	471	525	508										
Borrowings	US\$m	4,915	4,915	4,915	4,915	4,915	4,915	4,915	4,915										
Provisions	US\$m	748	748	748	748	748	748	748	748										
Other	US\$m	1,578	1,578	1,578	1,578	1,578	1,578	1,578	1,578										
Total liabilities	US\$m	8,510	8,336	8,731	9,059	9,257	9,594	9,867	9,781										
SHAREHOLDER'S EQUITY																			
Share capital	US\$m	5,036	6,787	7,912	9,037	9,037	9,037	9,037	9,037										
Retained earnings	US\$m	5,141	5,885	6,849	8,132	9,538	11,023	12,840	14,495										
Reserves	US\$m	1,509	914	914	914	914	914	914	914										
Total equity	US\$m	11,686	14,181	16,270	18,677	20,084	21,569	23,385	25,041										
Weighted average NoSh	m	773	796	821	846	858	858	858	858										
PRODUCTION																			
Year ending 31 Dec	Unit	2010A	2011E	2012E	2013E	2014E	2015E	2016E	2017E										
NWS (ex oil)	mmboc	47.6	45.4	45.0	44.6	44.2	43.8	41.8	40.0										
Browse	mmboc	-	-	-	-	-	-	-	-										
Pluto 1	mmboc	-	-	29.5	39.3	39.3	39.3	39.3	39.3										
Pluto 2	mmboc	-	-	-	-	-	19.1	38.3	38.3										
Pluto 3	mmboc	-	-	-	-	-	-	8.0	38.2										
Sunrise	mmboc	-	-	-	-	-	-	-	-										
Aust. oil & other	mmboc	24.3	18.7	16.6	15.3	23.2	22.1	18.6	13.8										
Total production	mmboc	72.0	64.0	91.1	99.2	106.7	124.3	146.0	169.6										

Note: Financials do not include Pluto 3 and Browse



SOURCE: BELL POTTER SECURITIES ESTIMATES

Horizon Oil (HZN)

Recommendation

Buy (unchanged)

Price

\$0.24

Target (12 months)

\$0.51 (unchanged)

Expected Return

Capital growth	117%
Dividend yield	0%
Total expected return	117%

Company Data & Ratios

Enterprise value	\$283m
Market cap	\$259m
Issued capital	1,131m
Free float	100%
Avg. daily vol. (52wk)	3,043,376
12 month price range	\$0.16 - \$0.43
GICS sector	Energy

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	0.18	0.27	0.34
Absolute (%)	31.4	-13.2	-32.4
Rel market (%)	29.3	-20.6	-21.9

Absolute Price



SOURCE: IRESS

A good package in our view but a poor market rating

HZN has been one of our recommended mid cap oil stocks for some time, particularly for investors with a lower risk tolerance, in a sector that tends to be high risk and volatile. This has not stopped HZN's share price from disappointing this year.

We continue to regard the stock undervalued and we reiterate a Buy recommendation, with a valuation of \$0.51/share.

Maari oil production has disappointed

The company's current production asset is at the Maari oil project in New Zealand, which has underperformed but appears to have found a base around 15,000bopd.

The project has been plagued by downhole pump failures and reduced productivity as a phenomenon called scaling inhibits flow rates. The operator OMV is working hard to improve reliability and if all the wells can be run without interruption then field production is likely to exceed 20,000bopd. This is not in our forecasts and we predict a further gradual decline in production.

Beibu Gulf

Unlike most oil & gas stocks, the upside in HZN is not so much about exploration success, but execution of new developments. CNOOC is the operator for Beibu Gulf, where it has a proven track record of developing oil projects. FID was taken early this year and a significant proportion of the US\$300m capex has been locked in on fixed contracts. The project is planned to commence late 2012 but we have delayed our assumed start-up until 1H 2013.

PNG gas and liquids

The Stanley liquids stripping project represents HZN's first operatorship at the development level. Its PNG partner is Canada's Talisman Energy, which is looking to commercialise several gas discoveries found in Western PNG, including Stanley, Elevala and Ketu. HZN and Talisman are expected to take FID on the Stanley liquids project before the end of this year, and plans to drill Elevala-2 and Ketu-2 over the coming months. Any success at these two liquids rich gas discoveries could lead to a significant expansion of the Stanley liquids project. It could also lead to a gas for power generation project but we do not value this upside in HZN at this stage.

Market rating

The reason HZN has performed relatively poorly this year appears to stem from the convertible note issue in June 2011. Some investors don't like mid caps taking on debt or indeed convertible notes. We regard the notes as debt, and we like the fact that they were issued with a conversion price about 39% above the then share price. We think it is better to effectively issue equity at a premium rather than at a discount, which is dilutive to shareholders. Management of HZN needed to explain this better to the market.

Table 8 - Financial summary

Income Statement US\$m						Valuation Data						
Year end June 30	2011A	2012F	2013F	2014F	2015F	Year end June 30	2011A	2012F	2013F	2014F	2015F	
Revenue	59.4	54.8	116.8	257.3	240.6	Adjusted NPAT (A\$m)	16.7	7.5	25.4	76.0	76.5	
EBITDAX	42.8	32.5	63.4	153.8	143.1	Adjusted EPS (A\$)	1.4c	0.6c	2.1c	6.4c	6.2c	
DD&A	-10.3	-9.7	-14.4	-34.6	-32.4	EPS growth	-26%	-57%	250%	205%	-3%	
Exploration write-off	-0.3	-10.5	-5.0	-5.5	-6.1	P/E ratio	17.9x	41.7x	11.9x	3.9x	4.0x	
EBIT	32.3	12.3	44.0	113.7	104.7	OpCFPS (excl. abnormals)	3.5c	0.9c	4.2c	10.4c	7.7c	
Net interest	-2.4	3.7	-4.6	-8.2	-1.4	Price/OpCFPS	7.1x	27.9x	6.0x	2.4x	3.3x	
Abnormals	22.0	0.0	0.0	0.0	0.0	DPS (A\$)	0.0c	0.0c	0.0c	0.0c	0.0c	
Pre-tax profit	51.9	15.9	39.4	105.5	103.3	Yield	0.0%	0.0%	0.0%	0.0%	0.0%	
Tax	-13.5	-7.9	-13.3	-33.3	-32.8	EV/EBITDA	6.6x	11.9x	7.0x	2.1x	1.6x	
Minority interests	0.0	0.0	0.0	0.0	0.0	Profitability Ratios						
Reported net profit	38.4	8.0	26.1	72.2	70.5	Year end June 30	2011A	2012F	2013F	2014F	2015F	
Adjusted net profit	16.4	8.0	26.1	72.2	70.5	EBITDA/sales	72%	59%	54%	60%	59%	
(adjusted net profit = before abnormals and significant items)						EBIT/sales	54%	22%	38%	44%	44%	
Cashflow US\$m						Return on assets (avg.)	7%	3%	7%	16%	14%	
Year end June 30	2011A	2012F	2013F	2014F	2015F	Return on equity (avg.)	12%	5%	15%	31%	23%	
Reconciliation						Dividend cover	N/A	N/A	N/A	N/A	N/A	
Net profit US\$	\$38.4m	\$8.0m	\$26.1m	\$72.2m	\$70.5m	Effective tax rate	26%	50%	34%	32%	32%	
Exploration write-off	0.3	10.5	5.0	5.5	6.1	Liquidity & Leverage						
Depreciation	10.3	9.7	14.4	34.6	32.4	Year end June 30	2011A	2012F	2013F	2014F	2015F	
Change in working capital	21.5	-17.5	4.2	11.7	-13.8	Net debt	\$5.7m	\$85.1m	\$150.8m	\$47.0m	-\$34.5m	
Other	-28.8	0.0	0.0	0.0	0.0	Net debt/equity	4%	54%	82%	17%	-10%	
Net operating cashflow	41.7	10.6	49.7	124.0	95.1	Interest cover	18.2x	-8.9x	13.8x	18.7x	102.7x	
Investing cashflow						Assumptions						
Capex on PPE	-41.4	-55.1	-105.5	-28.1	-1.5	Year end June 30	2011A	2012F	2013F	2014F	2015F	
Exploration	-34.5	-35.0	-10.0	-11.0	-12.1	Maari production (bopd)	16,673	14,713	13,278	11,611	10,042	
Other	21.3	0.0	0.0	0.0	0.0	Beibu Gulf production (bopd)	0	0	6,849	16,027	14,465	
Net investing cash flow	-54.6	-90.1	-115.5	-39.1	-13.6	Stanley production (bcpd)	0	0	0	4,527	4,521	
Financing activities						Total Net Production (Mboe)	0.6	0.5	1.2	3.0	2.8	
Issue of shares	0.6	0.0	0.0	18.9	0.0	Net total production (boepd)	1,672	1,475	3,182	8,222	7,640	
Buybacks	0.0	0.0	0.0	0.0	0.0	Oil price (US\$/barrel)	95.99	100.00	100.00	100.00	101.88	
Dividends paid	0.0	0.0	0.0	0.0	0.0	PNG Gas price (US\$/GJ)	0.00	0.00	0.00	0.00	0.00	
Debt	50.3	20.1	65.9	-30.0	-20.0	Exchange rate (A\$/US\$)	0.977	1.065	1.025	0.950	0.921	
Others	0.0	0.0	0.0	0.0	0.0	Valuation						
Net financing cash flow	50.9	20.1	65.9	-11.1	-20.0	Reserves	Gross	Net	Mboe	A\$m	\$/share	
FX impact	0.1	0.0	0.0	0.0	0.0	New Zealand Maari (mb)	45.0	4.5	4.5	135.9	0.12	
Net change in cash held	38.1	-59.3	0.1	73.9	61.5	China Beibu Gulf (mb)	42.0	11.3	11.3	270.8	0.24	
Balance Sheet US\$m						PNG Stanley cond/LPG (mb)	12.4	4.9	4.9	110.8	0.10	
Year end June 30	2011A	2012F	2013F	2014F	2015F	Sub-total			20.7	517.4	0.46	
Assets						Other resources						
Cash assets US\$	\$64.6m	\$5.3m	\$5.4m	\$79.3m	\$140.8m	Maari/Mania upside (mb)	10	1.0	1.0	10.0	0.01	
Receivables	2.3	0.1	3.8	8.8	20.6	Beibu Gulf upside (mb)	33	8.9	8.9	44.5	0.04	
Inventories	2.3	0.0	0.0	0.0	0.0	Stanley liquids upside (mb)	8	3	3.0	14.9	0.01	
Other	0.3	0.1	0.0	0.1	0.3	Elevala/Ketu cond/LPG (mb)	24	8	8.4	41.9	0.04	
Total current assets	69.4	5.4	9.3	88.2	161.6	Stanley gas (PJ)	450	177	29.4	7.4	0.01	
Plant and equipment	146.8	192.2	283.2	276.7	245.8	Cash (Net debt)				-5.7	-0.01	
Investment	0.0	0.0	0.0	0.0	0.0	Corporate overheads				-54.1	-0.05	
Intangible assets	63.5	88.0	93.0	98.5	104.5	TOTAL				576.3	0.51	
Deferred tax assets	13.8	13.8	13.8	13.8	13.8	Sensitivities						
Other	0.0	0.3	0.3	0.3	0.3	Valuation on LT oil price from 2013				A\$m	A\$/sh	
Total non-current assets	224.1	294.3	390.3	389.3	364.5	Base case		US\$100		576	0.51	
Total assets	293.5	299.7	399.6	477.5	526.1	Low case		-10%		537	0.47	
Liabilities						High case		+10%		703	0.62	
Debt	5.9	26.1	91.9	61.9	41.9	Discount rate						
Payables	18.7	0.5	1.2	2.2	2.0	Base case		10%		576	0.51	
Deferred revenue	0.0	5.5	11.7	25.7	24.1	Lower case		12%		563	0.50	
Current tax liabilities	7.9	0.2	0.4	1.0	1.0	Conservative case		14%		520	0.46	
Provisions	0.0	0.5	1.4	2.5	2.5	EPS sensitivity			2012	2013	2014	2015
Total current liabilities	32.6	32.7	106.6	93.3	71.5	Base case			0.6¢	2.1¢	6.4¢	6.2¢
Debt	64.3	64.3	64.3	64.3	64.3	Oil 10% lower			0.6¢	2.0¢	5.7¢	5.5¢
Other	23.4	23.4	23.4	23.4	23.4	Oil 10% higher			1.2¢	3.1¢	8.2¢	8.0¢
Provisions	20.6	20.6	20.6	20.6	20.6	Peer group reserves comparison						
Total non-current liabilities	108.4	108.4	108.4	108.4	108.4		EV	2P	3P	EV/2P	EV/3P	
Total liabilities	140.9	141.1	215.0	201.7	179.8		\$m	Mboe	Mboe	\$/boe	\$/boe	
Net assets	152.6	158.6	184.6	275.8	346.2	AWE	659	70.0	113.9	\$9.42	\$5.79	
Equity						BPT	1,133	66.0	80.0	\$17.17	\$14.16	
Contributed equity	126.0	168.5	168.5	187.4	187.4	CVN	117	24.5	57.0	\$4.79	\$2.06	
Reserves & outside equity	6.6	6.6	6.6	6.6	6.6	ROC	171	14.0	22.8	\$12.22	\$7.52	
Retained earnings	20.0	-16.6	9.5	81.7	152.2	NXS	549	103.0	323.0	\$5.33	\$1.70	
Total equity	152.6	158.6	184.6	275.8	346.2	Peer group average				\$9.79	\$6.25	
Diluted shares on issue	1188.2	1188.2	1188.2	1242.6	1242.6	HZN	289	20.7	71.4	\$13.96	\$4.05	
W'd ave diluted shares	1180.0	1188.2	1188.2	1188.2	1242.6							

SOURCE: BELL POTTER SECURITIES ESTIMATES

Dart Energy (DTE)

Recommendation

Spec Buy (unchanged)

Price

\$0.58

Target (12 months)

\$1.03 (unchanged)

Expected Return

Capital growth	78%
Dividend yield	0%
Total expected return	78%

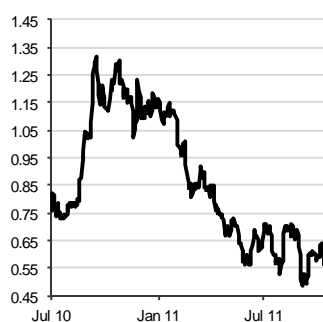
Company Data & Ratios

Enterprise value	\$285m
Market cap	\$418m
Issued capital	721m
Free float	100%
Avg. daily vol. (52wk)	3,228,917
12 month price range	\$0.46 - \$1.31
GICS sector	Energy

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	0.60	0.62	1.22
Absolute (%)	-3.4	-6.5	-52.9
Rel market (%)	-5.5	-14.0	-42.5

Absolute Price



SOURCE: IRESS

Investment View

With a valuation of \$1.03/share, we believe DTE is undervalued. However, we see some downside risk in the near term. Not only has the Australian CBM sector been weighed down by the increasingly vocal community over environmental concerns, the company's targets for 2011 are likely to slip. While we continue to like DTE for its diversified portfolio with exposure to high gas demand markets, management needs to act quickly or risk the share price languish further. The introduction of strategic partners and/or a successful separate listing of DTE elsewhere may provide greater see-through value and we anticipate the outcome of this by March 2012.

Dajing disappoints so far

The much anticipated exploration drilling at Dajing is finally underway (slipped from 2Q 11) with ten of the 14 wells now complete evaluating 50% of the ultimate block potential by area. However, initial well results are below the pre-drill estimates as a result of lower gas content found in the coal. DTE plans to drill the last four wells in early 2012 followed by an assessment of the prospective resource. It may be too early to conclude but if Dajing proves to be uneconomical for development, the significant size of the license means it would have a material impact on the valuation. Dajing makes up 25% or \$0.25/sh of our valuation of DTE.

Targets for 2011 could slip

Management's targets for 2011 released in April 2011 at the time of a \$100m equity raising were encouraging. However, many of these are likely to slip and are unlikely to materialise until at least mid-2012.

Not easy to get funding

Unlike conventional projects, CBM requires a large amount of wells to be drilled throughout the life of the project and particularly during the ramp-up phase. As such adequate funding is one of the hurdles small companies like DTE needs to overcome. With a Gas Sales Agreement to fulfil in Scotland, we expect a shortfall of c.\$60m by mid 2012 which the company plans to fund via project financing. While this makes sense for the company, we believe project finance is not readily available for CBM projects. We believe farm-outs and/or an equity raising are more likely.

Table 9 - Financial summary

PROFIT AND LOSS						
Year ending 30 Jun	Unit	2011A	2012E	2013E	2014E	2015E
Revenue	\$m	0	5	90	218	366
Expense	\$m	(25)	(38)	(45)	(74)	(103)
EBITDA	\$m	(24)	(33)	45	144	263
Depreciation	\$m	(0)	(1)	(22)	(80)	(95)
EBIT	\$m	(25)	(34)	23	63	169
Net interest expense	\$m	2	5	2	(0)	(5)
PBT	\$m	(23)	(29)	25	63	164
Tax expense	\$m	2	1	(7)	(22)	(41)
NPAT of associates	\$m	(0)	-	-	-	-
NPAT (underlying)	\$m	(21)	(28)	18	42	123
Abnormal items	\$m	21	-	-	-	-
NPAT (reported)	\$m	0	(28)	18	42	123

CASH FLOW						
Year ending 30 Jun	Unit	2011A	2012E	2013E	2014E	2015E
OPERATING CASHFLOW						
NPAT	\$m	-	(28)	18	42	123
Add: non-cash items	\$m	-	9	23	80	95
Change in working capital	\$m	-	14	9	14	16
Operating cash flow	\$m	(19)	(5)	50	136	234
INVESTING CASHFLOW						
Net PP&E	\$m	(9)	(3)	(84)	(222)	(262)
Exploration & evaluation	\$m	(13)	(84)	(8)	-	-
Other	\$m	16	-	-	-	-
Investing cash flow	\$m	(6)	(87)	(92)	(222)	(262)
FINANCING CASHFLOW						
Share capital	\$m	159	-	-	11	19
Interest bearing debt	\$m	(3)	-	19	100	38
Financing cash flow	\$m	155	-	19	111	57
Change in cash	\$m	124	(92)	(23)	26	30

BALANCE SHEET						
Year ending 30 Jun	Unit	2011A	2012E	2013E	2014E	2015E
ASSETS						
Cash & cash equivalents	\$m	133	41	18	44	73
Accounts receivable	\$m	23	0	4	11	18
Oil & gas properties	\$m	2	4	67	208	375
Exploration & evaluation assets	\$m	296	371	378	378	378
Other	\$m	39	39	39	39	39
Total assets	\$m	492	456	506	679	884
LIABILITIES						
Accounts payable	\$m	9	1	13	33	55
Tax payable	\$m	0	0	1	2	4
Borrowings	\$m	-	-	19	120	157
Provisions	\$m	7	7	7	7	7
Other	\$m	17	17	17	17	17
Total liabilities	\$m	33	24	57	178	240
SHAREHOLDER'S EQUITY						
Share capital	\$m	371	371	371	382	401
Retained earnings	\$m	(26)	(54)	(36)	5	129
Reserves & outside equity	\$m	89	60	78	120	243
Total equity	\$m	459	431	449	501	644
Weighted average NoSh	m	544	721	721	726	753

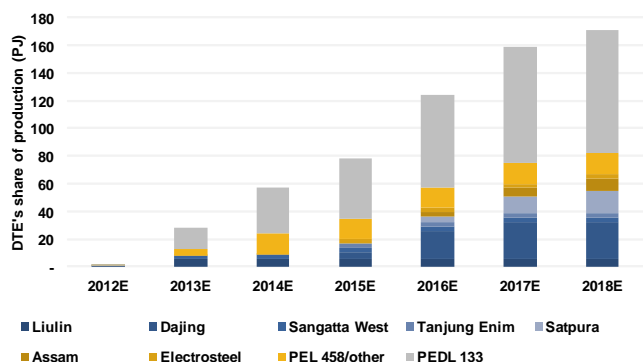
Note: All assets except Sangatta West PSC and Liulin PSC are treated as subsidiaries (consolidated)

FINANCIAL RATIOS						
Year ending 30 Jun	Unit	2011A	2012E	2013E	2014E	2015E
VALUATION						
NPAT (reported)	\$m	0	(28)	18	42	123
EPS (reported)	c/sh	0.0	(3.9)	2.5	5.7	16.4
EPS growth	%	-	n.m	n.m	134%	186%
PER	x	1488.5x	-14.9x	23.6x	10.1x	3.5x
DPS	c/sh	-	-	-	-	-
Yield	%	-	-	-	-	-
EV/EBITDA	x	-11.7x	1.2x	0.0x	0.5x	0.3x
PROFITABILITY RATIOS						
EBITDA margin	%	-	-	50%	66%	72%
EBIT margin	%	-	-	25%	29%	46%
Return on assets	%	-	-6%	4%	7%	16%
Return on equity	%	-	-6%	4%	9%	22%
LIQUIDITY & LEVERAGE						
(Net debt) / cash	\$m	133	41	(1)	(76)	(84)
ND / E	%	0%	0%	4%	24%	24%
ND / (ND + E)	%	0%	0%	4%	19%	20%

ASSUMPTIONS						
Year ending 30 Jun	Unit	2011A	2012E	2013E	2014E	2015E
GAS PRICES						
China	\$/GJ	6.7	6.1	6.3	7.3	7.5
Indonesia	\$/GJ	6.4	6.2	6.0	6.6	7.4
India	\$/GJ	7.0	6.8	6.6	7.2	8.1
Australia	\$/GJ	3.8	3.9	4.0	4.0	4.1
CURRENCY						
AUD/RMB		6.03	6.62	6.36	6.04	5.86
AUD/USD		0.88	0.98	1.07	1.03	0.95
AUD/INR		41.13	45.51	46.94	47.10	47.04
INFLATION						
Australia	%	2.5%	2.5%	2.5%	2.5%	2.5%
China	%	3.3%	5.0%	4.0%	4.0%	3.5%
Indonesia	%	7.0%	7.3%	5.5%	4.5%	4.0%
Vietnam	%	9.2%	13.5%	6.7%	6.0%	5.5%
India	%	13.2%	7.5%	6.9%	4.9%	4.0%
Poland	%	2.6%	4.1%	2.9%	2.6%	2.5%
UK	%	3.3%	4.2%	2.0%	2.0%	2.0%

SOTP VALUATION					
	Net reserves ¹ (PJ)	Unrisked \$/GJ value (\$m)	\$/sh	Risked \$/GJ value (\$m)	\$/sh
Liulin PSC	67	1.41	94	0.12	85
Dajing PSC	721	1.13	815	1.05	204
Sangatta West PSC	54	0.39	21	0.03	11
Indonesian licences	432		172	0.22	21
Indian licences	615		158	0.20	17
PEL 456	2,400	0.19	465	0.60	116
PEL 458	425	0.09	39	0.05	19
PEL 463	2,058	0.15	309	0.40	77
Australian licences	600		90	0.12	22
PEDL 133	595	0.35	208	0.27	104
UK/European licenses	2,729		955	1.23	73
Total	10,697		3,327	4.29	750
Investments			16	0.02	16
Group / unallocated			(100)	(0.13)	(100)
(Net debt) / cash			133	0.17	133
Equity value			3,377		800
NoSh - diluted (m)			776		776
Value per share (\$/sh)			4.35		1.03

¹ BPS estimated potential reserves



SOURCE: BELL POTTER SECURITIES ESTIMATES

Carbon Energy (CNX)

Recommendation

Spec Buy (unchanged)

Price

\$0.15

Target (12 months)

\$0.63 (unchanged)

Expected Return

Capital growth	332%
Dividend yield	0%
Total expected return	332%

Company Data & Ratios

Enterprise value	\$109m
Market cap	\$114m
Issued capital	786m
Free float	100%
Avg. daily vol. (52wk)	1,175,781
12 month price range	\$0.13 - \$0.45
GICS sector	Energy

Disclosure: Bell Potter Securities acted as broker to CNX equity raisings in June 2009 and December 2010 and received fees for that service.

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	0.15	0.19	0.42
Absolute (%)	-4.9	-22.5	-65.7
Rel market (%)	-7.1	-29.9	-55.3

Absolute Price



SOURCE: IRESS

Investment View

We believe CNX has significant upside potential if the UCG concept is commercially proved. The technical proof of concept has arguably been demonstrated, but the market appears to be waiting for the commencement of electricity sales from Bloodwood Creek and the go-ahead at another UCG project such as Mulpun in Chile where power prices are higher. The introduction of an Australian carbon tax will make UCG more competitive than coal fired power generation. However, ultimately we see the biggest potential for UCG overseas. The connection of Bloodwood Creek to the grid is the next share price catalyst for CNX.

Spec Buy with a risked valuation of \$0.63/share and an unrisked valuation of \$1.94/share.

Connection to the grid looks on track

CNX is using Underground Coal Gasification (UCG) technology developed by the CSIRO to convert in situ coal to synthetic gas (syngas) for power generation and ammonia production. The company's UCG trial at Bloodwood Creek near Dalby in Queensland is awaiting Ergon Energy to complete work at the substation before connection to the power grid. The timetable for this is out of CNX's control but should be completed this November.

It is also worth noting that DERM approvals to generate the full 5MW capacity are yet to be achieved, with current approvals only up to 1MW. The company hopes this is forthcoming but DERM has been slow on past occasions.

Chile project next, other overseas opportunities await

CNX has a 30% share of a UCG project in Chile, in partnership with Antofagasta, a major copper miner and diversified conglomerate. The partners are preparing for a UCG pilot project at Mulpun, with high hopes to build a 300MW plant if the results are encouraging. This would be a very attractive project based on our preliminary modelling as power prices in Chile are very high.

CNX has other projects overseas, such as US, Turkey and India but all of these are behind the developments in Queensland and Chile.

Fund raising out of the way

With a monthly cash burn of \$1.5-2.0m the company's need for cash will lead to regular equity raisings as cash flow is low and debt financing is not available for a concept. On 6 October, CNX announced a \$10m raising through the placement of a convertible loan facility to its major shareholder Pacific Road Capital and \$10m through a 1-for-8 non-renounceable rights issue at \$0.12/share. The rights issue price was at a 17% discount to the closing price and is not underwritten.

Table 10 - Financial summary

PROFIT AND LOSS						FINANCIAL RATIOS					
Year ending 30 June	Unit	2011A	2012E	2013E	2014E	Year ending 30 June	Unit	2011A	2012E	2013E	2014E
Revenue	\$m	-	1	6	56	Reported EPS	c/sh	(2.4)	(1.2)	(0.8)	3.2
Expense	\$m	(15)	(13)	(13)	(14)	EPS growth	%	-50%		n.m	-488%
EBITDA (pre associates)	\$m	(15)	(12)	(7)	41	DPS	c/sh	-	-	-	-
Gain/(loss) from associates	\$m	(1)	(1)	(1)	(1)	VALUATION					
Depreciation	\$m	(0)	(0)	(2)	(4)	PER	x	-6.0x	-12.0x	-17.4x	4.5x
EBIT	\$m	(17)	(13)	(10)	36	OpCFPS (ex. abnormals)	c/sh	(2.7)	(0.9)	(0.6)	2.9
Net interest expense	\$m	1	1	1	1	Price/OpCFPS	x	-5.4x	-16.4x	-24.5x	5.0x
PBT	\$m	(16)	(13)	(9)	36	Yield	%	-	-	-	-
Tax expense	\$m	-	4	3	(11)	EV/EBITDA	x	-7.2x	-9.4x	-16.2x	2.7x
NPAT (underlying)	\$m	(16)	(9)	(7)	25	PROFITABILITY RATIOS					
Abnormal items	\$m	0	-	-	-	EBITDA margin	%		-1025%	-125%	72%
NPAT (reported)	\$m	(16)	(9)	(7)	25	EBIT margin	%		-1059%	-158%	64%
CASH FLOW						Return on assets	%		-5%	-3%	11%
Year ending 30 June	Unit	2011A	2012E	2013E	2014E	Return on equity	%		-5%	-4%	13%
OPERATING CASHFLOW						Dividend cover	x		-	-	-
NPAT	\$m	(16)	(9)	(7)	25	LIQUIDITY & LEVERAGE					
Add: non-cash items	\$m	0	0	2	4	(Net debt) / cash	\$m	10	5	1	19
Change in working capital	\$m	(2)	2	(0)	(7)	ND / E	%	-6%	-3%	-1%	-9%
Operating cashflow	\$m	(17)	(7)	(5)	23	ND / (ND + E)	%	-6%	-3%	-1%	-10%
INVESTING CASHFLOW						ASSUMPTIONS					
Net PP&E	\$m	(10)	(10)	-	(23)	Year ending 30 June	Unit	2011A	2012E	2013E	2014E
Investments in associates	\$m	-	1	1	1	Gas price (QLD)	\$/GJ	3.50	3.59	3.68	3.77
Other	\$m	(1)	-	-	-	Gas price (Chile)	\$/GJ	8.00	8.20	8.41	8.62
Investing cash flow	\$m	(11)	(9)	1	(22)	Gas price (USA)	\$/GJ	5.00	5.13	5.25	5.38
FINANCING CASHFLOW						Gas price (Turkey)	\$/GJ	7.00	7.18	7.35	7.54
Share capital	\$m	20	10	-	17	Gas price (India)	\$/GJ	5.00	5.13	5.25	5.38
Dividends paid	\$m	-	-	-	-	AS/US\$		\$0.98	\$1.07	\$1.03	\$0.95
Interest-bearing debt	\$m	-	10	-	-	SUM-OF-PARTS					
Financing cash flow	\$m	20	20	-	17	Project	Unrisked NPV (\$m)	A\$/sh	Risk	Risked NPV (\$m)	A\$/sh
Change in cash	\$m	(9)	5	(3)	18	Bloodwood Creek 25MW	12	0.02	100%	12	0.02
BALANCE SHEET						Blue Gum 300MW	209	0.27	40%	83	0.11
Year ending 30 June	Unit	2011A	2012E	2013E	2014E	Mulpun 100MW	272	0.35	60%	163	0.21
ASSETS						Wyoming 200MW	263	0.33	30%	79	0.10
Cash	\$m	10	15	11	29	Amasra 200MW	228	0.29	30%	68	0.09
Accounts receivable	\$m	2	1	5	44	Adani MoU 200MW	56	0.07	20%	11	0.01
PP&E	\$m	140	149	147	166	Ammonia 800tpd	77	0.10	40%	31	0.04
Investment in associates	\$m	3	2	0	(1)	Liquid fuels 5,000bpd	400	0.51	10%	40	0.05
Other	\$m	25	25	25	25	Intellectual Property	50	0.06	100%	50	0.06
Total assets	\$m	180	192	189	264	Net asset value	1,567	1.99		538	0.68
LIABILITIES						2012E valuation					
Accounts payable	\$m	1	3	6	39	Net asset value	\$m	1,567	538		
Borrowings	\$m	-	10	10	10	29m EMX shares (36%) at \$0.075 (\$m)	\$m	2	2		
Provisions	\$m	2	2	2	2	NPV of corporate overheads	\$m	(53)	(53)		
Total liabilities	\$m	4	15	19	51	Net cash	\$m	5	5		
SHAREHOLDER'S EQUITY						Equity value	\$m	1,521	492		
Share capital	\$m	218	228	228	245	NoSh	m	786	786		
Dividends	\$m	-	-	-	-	Value per share	\$/sh	1.94	0.63		
Retained earnings	\$m	(56)	(65)	(72)	(47)	VALUATION SENSITIVITIES					
Reserves	\$m	14	14	14	14		A\$m	A\$/sh	% diff		
Total equity	\$m	176	177	171	213	Base	492	0.63			
Weighted average NoSh	m	654	742	786	786	Panel capex 20% higher	462	0.59	-6%		
						Panel capex 20% lower	522	0.66	6%		
						Gas prices 10% higher	425	0.54	-14%		
						Gas prices 10% lower	559	0.71	14%		

SOURCE: BELL POTTER SECURITIES ESTIMATES

Karoon Gas (KAR)

Recommendation

Spec Buy (unchanged)

Price

\$4.78

Target (12 months)

\$11.00 (unchanged)

Expected Return

Capital growth	130%
Dividend yield	0%
Total expected return	130%

Company Data & Ratios

Enterprise value	\$800m
Market cap	\$1,060m
Issued capital	221.4m
Free float	100%
Avg. daily vol. (52wk)	945,565
12 month price range	\$2.60 - \$9.90
GICS sector	Energy

Disclosure: Bell Potter Securities assisted KAR with equity placements in June 2009 and September 2010, and received fees and shares as payment.

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	3.99	3.35	9.65
Absolute (%)	20.3	43.3	-50.3
Rel market (%)	18.1	35.8	-39.9

Absolute Price



Important drilling campaigns ahead

KAR is preparing for a 5-8 well drilling program in the Browse basin to follow up the Poseidon/Kronos gas discoveries, and to start its Brazilian exploration in the 1H 2012. We are more attracted to the South American potential than the Browse acreage, where remoteness, target depths and uncertain reservoirs/gas qualities suggest a challenging commercial path, as demonstrated by many similar projects such as WPL's Browse LNG, Inpex's Ichthys, NXS' Crux and Shell's Prelude projects. We maintain a Spec Buy with a \$11.00/share risked target but investors must recognise that this is high risk exploration.

- Browse exploration remains a tough gig
- Brazil and Peru appear to offer better risk/reward in our view
- Funding OK for the next 18 months

Browse drilling campaign to re-commence

KAR has contracted the TransOcean Legend to drill 5-8 appraisal and exploration wells starting before the end of this year. The program is expected to take 18-24 months and cost KAR about \$180m.

We downgraded our expectations at Poseidon last year to a 35% chance of success, and recent drilling by WPL at Argus-2 has not made us more positively inclined. The Argus discovery is located 60km to the north of Poseidon and was unable to reach the very deep reservoirs at 5km depth due to high pressures. This is a similar problem encountered at Poseidon-1 and 2, where KAR managed to get to the reservoir but was unable to conduct testing due to high pressures. While it's possible that these challenges can be overcome, we also observe that companies like WPL and Inpex have discovered 13Tcf of gas each with higher liquids content hosted in better reservoirs and have still not been able to commit to developments. The Browse is undoubtedly a very tough gig and the odds for success are long.

Partner sought for Brazilian drilling plans in 2Q 2012

KAR has also contracted a drilling rig for a three well program offshore Brazil in 2Q 2012. The company currently owns 100% of these blocks but are seeking farm-in partners to fund the bulk of the costs, which could amount to \$100m.

These oil prospects are wildcats, but appear quite attractive as nearby discoveries and high quality 3D seismic reduce the risks somewhat. KAR's independent consultants DeGolyer MacNaughton have assessed the risks in the 20-50% range for reserves potential in the 100-500mmbbl range. That's pretty good, and we are attracted to this drilling program, as well as a possible later exploration program offshore Peru for later in 2012.

Table 11 - Financial summary

Field/Prospect	Basin	Permit	Gas Tcf	Liquids mmbbl	Total boe mmboe	KAR's share %	NPV/boe US\$/boe	Unrisked Value		Risking	Risked MMboe	A\$m	A\$/sh
								A\$m	A\$/sh				
Poseidon	Browse	WA-315/398P	5.0	50	939	40	2.00	766	3.53	35%	131	268	1.23
Lion	Browse	WA-314/315P	1.0	30	208	40	2.00	170	0.78	20%	17	34	0.16
Grace	Browse	WA-314P	3.3	45	632	90	2.00	1,160	5.34	15%	85	174	0.80
Duyfken	Browse	WA-398P	0.3	9	62	40	2.00	51	0.23	10%	2	5	0.02
Elvie	Browse	WA-314P	2.0	30	386	90	2.00	708	3.26	10%	35	71	0.33
Lead-F	Browse	WA-315P	3.0	90	623	40	2.00	509	2.34	10%	25	51	0.23
Total Browse			14.6		2,850			3,364	15.48		295	603	2.77
Jania	Bonaparte	AC/P8		20	20	66	3.00	40	0.19	10%	1	4	0.02
Lead x 5	Bonaparte	AC/P9		100	100	66	3.00	202	0.93	5%	3	10	0.05
Total Bonaparte				120	120			242	1.12		5	14	0.07
Pico de Jaragua	Santos, Brazil	SM-1101-1165		345	345	100	3.00	1,056	4.86	50%	173	529	2.43
Morro da Igreja	Santos, Brazil	SM-1037		566	566	100	3.00	1,733	7.97	25%	142	433	1.99
Monte Roraima	Santos, Brazil	SM-1166		47	47	100	3.00	144	0.66	42%	20	60	0.28
Pre-salt lead	Santos, Brazil	SM-1102		101	101	100	3.00	309	1.42	19%	19	58	0.27
Maruja	Santos, Brazil	SM-1352		60	60	20	5.00	61	0.28	75%	9	46	0.21
Leads x 4	Tumbes, Peru	Z38	0.5	649	738	75	3.00	1,694	7.80	16%	89	271	1.25
Lead 1	Maranon, Peru	Block 144		80	80	100	3.00	245	1.13	25%	20	61	0.28
Total South America				1,848	1,937			5,242	24.12		471	1,459	6.72
Total					4,906			8,849	40.72		771	2,076	9.56
										Cash	320		1.47
										Total			11.03

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Spec Buy: Expect >30% total return on a 12 month view but carries significantly higher risk than its sector

Buy: Expect >15% total return on a 12 month view

Accumulate: Expect total return between 5% and 15% on a 12 month view

Hold: Expect total return between -5% and 5% on a 12 month view

Reduce: Expect total return between -15% and -5% on a 12 month view

Sell: Expect <-15% total return on a 12 month view

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Johan Hedstrom owns shares in the following companies: HZN 100,000; NEN 100,000.