NXS.asx
Buy

NEXUS ENERGY LTD

WA Oil & Gas: Oil and Gas

	28 Jan 2009
Share Price:	$0.415
12mth Price Target:	$1.59

Brief Business Description:
Oil and gas explorer / producer with assets located offshore Australia.

Hartleys Brief Investment Conclusion
Near term asset or corporate transaction likely to result in significant share price appreciation.

Chairman & CEO:
Michael Fowler (Chariman)
Ian Tchacos (Managing Director)

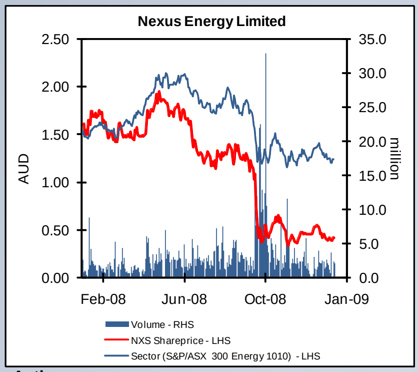
Top Shareholders:
Viking Shipping Limited (14.9%)
Anzon Australia Limited (10.2%)
ANZ Nominees limited (6.2%)

Company Address:
134-140 Little Lonsdale Street
Melbourne, VIC, 3000

Valuation:	$3.18
Issued Capital:	645.4m
- fully diluted	745.4m
Market Cap:	$267.8m
- fully diluted	$309.3m
Debt (31 Dec '08):	-$240.0m
Cash Equiv (31 Dec '08):	$75.0m

	FY08a	FY09e	FY10e
Prodn (mmboe)	0.000	0.327	4.578
Op Cash Flw	-$12.4m	-$16.4m	$43.0m
Free Cash Flw	-$235.6m	-$428.0m	-$199.2m
NPAT (A$m)	-$21.7m	-$1.9m	$39.9m
EPS ($, bas)	-3.4x	-0.3x	5.3x
P/E (basic)	-12.3x	-164.5x	7.8x
EV / EBITDA	-17.8x	-37.9x	6.3x
DPS ($)	-	-	-
Franking	100%	100%	100%
Dividend Yield	0.0%	0.0%	0.0%
N.D. / equity	44%	45%	71%
Chg in Cash	182.7	-196.4	-0.0
- per share			
Net Cash End	$223.8m	$25.0m	$25.0m
2P Reserves (mmboe)		128.10	
EV / 2P Reserve		3.4x	

Source: Hartleys Research



Authors:
Dave Wall
Oil and Gas Analyst
Ph: +61 8 9268 2826
E: david_wall@hartleys.com.au

Quarterly Indicates Corporate Offers

Nexus Energy Limited ("NXS", "Nexus", "Company") has reported in its Q408 quarterly that the divestment process for its 85% owned Crux liquids project has been expanded to include potential corporate offers. It is possible that this is posturing in an attempt to improve the share price; however, we believe that current market conditions are highly conducive to a takeover of the Company.

Potential bidders include joint venture partner, Royal Dutch Shell ("Shell"), Mitsui E&P Ltd ("Mitsui") or one of the Asian national oil companies, such as Sinopec or Petronas. Shell is partnered with Nexus in two permits, AC/P41 (NXS 15%), where a ~500 billion cubic feet gas discovery was recently made, and WA-377-P (NXS 66%), which contains the 2 trillion cubic feet Echuca Shoals gas discovery. Both permits are located in the Browse Basin offshore in north Western Australia. Mitsui recently farmed in to AC/P41 after walking away from a deal associated with Crux.

Longtom on Track for First Gas Mid 2009

Nexus has also reported that its 100% owned Longtom Gas project in the Gippsland Basin, offshore Victoria, is on track for first gas production in mid 2009. The project is on budget and funding to complete the development is in place. Longtom revenues are 80% fixed due to contracted gas sales, and our valuation of A$293m, or 39cps, is insensitive to movements in oil price. Longtom should provide net cash flow of ~A$60m for its first few years of operation.

Break Up Value of Assets vs Debt / Commitments

Nexus currently has cash of A$75m, debt of A$240m and estimated expenditure for CY2009 of A$340m, with A$105m funded by undrawn finance secured against Longtom. This leaves a shortfall of A$160m in 2H2009, which necessitates the need for a farmout or sale of assets (or of the Company itself). Further expenditure of up to US$600m is required for Crux.

We value Nexus' share of Crux at A$1,500m, Longtom at A$293m and we estimate its exploration assets are worth A$650m on a risked basis, with upside potential of A$8b. This gives a total asset valuation of $2.4b compared to an enterprise value (market capitalisation plus net debt) of $432m, indicating a large discrepancy between our valuation (which we consider closer to what industry would pay) and the market's valuation.

Investment Thesis

Nexus has 2P reserves of 128 million barrels of oil equivalent ("boe") and its enterprise value to 2P reserve ratio is $3.40 per boe, which we consider very low on a peer comparison basis of ~$14 per boe. Concerns over funding have resulted in the stock being oversold, in our opinion, and gains in excess of 100% may be achieved through an asset sale or corporate transaction in the near term.

SUMMARY MODEL

Nexus Energy Limited **Share Price**
NXS **$0.42**

January 2009
BUY

Key Market Information	
Share Price	**$0.42**
Market Capitalisation	$268m
52 Week High-Low	$1.98-$0.31
Issued Capital	645.4m
Issued Capital (fully diluted inc. ITM options)	745.4m
Options	39.4m@$A1.98
Hedging	
Yearly Turnover/Volume	$864.2m/819.0m shares
Liquidity Measure (Yearly Turnover/Issued Capital)	127%
Valuation	
Discounted Cashflow @10% Real	$3.18
12 Month Price Target	$1.59

Financial Performance	Unit	FY2008A	FY2009E	FY2010E	FY2011E	FY2012F
Net Revenue	**A$m**	**7.8**	**5.9**	**92.0**	**211.5**	**1127.4**
Opex / Exploration	**A$m**	(32.1)	(64.1)	(57.9)	(133.5)	(145.4)
Secondary Tax Expense	**A$m**	-	46.8	34.1	34.3	(346.3)
Total Costs/Writeoffs	**A$m**	**(32.1)**	**(17.3)**	**(23.8)**	**(99.2)**	**(491.6)**
EBITDA	A$m	**(24.3)**	**(11.4)**	**68.2**	**112.2**	**635.8**
Depreciation/Amort	A$m	**(0.5)**	**(1.8)**	**(21.2)**	**(30.6)**	**(121.0)**
EBIT	**A$m**	**(24.8)**	**(13.2)**	**47.0**	**81.6**	**514.8**
Net Interest	A$m	**3.1**	**(14.1)**	**(26.3)**	**(30.5)**	**(1.5)**
Pre-Tax Profit	**A$m**	**(21.7)**	**(27.3)**	**20.6**	**51.2**	**513.3**
Tax Expense	A$m		**(4.2)**	**(12.1)**	**(27.3)**	
NPAT	**A$m**	**(21.7)**	**(1.9)**	**39.9**	**64.1**	**513.3**
Abnormal Items	A$m	**46.5**	**-**	**-**	**-**	
Reported Profit	A$m	**24.9**	**(1.9)**	**39.9**	**64.1**	**513.3**

Financial Position	Unit	FY2008A	FY2009E	FY2010E	FY2011E	FY2012F
Cash	**A$m**	**223.8**	**25.0**	**25.0**	**28.0**	**246.0**
Other Current Assets	A$m	23.8	25.8	31.9	71.1	134.9
Total Current Assets	**A$m**	**247.6**	**50.8**	**56.9**	**99.1**	**380.9**
Property, Plant & Equip.	A$m	-	561.2	752.5	782.9	713.0
Exploration & Dev.	A$m	401.1	263.1	273.1	278.1	278.1
Investments/other	A$m	98.6	98.6	98.6	98.6	98.6
Tot Non-Curr. Assets	**A$m**	**499.8**	**923.0**	**1124.3**	**1159.7**	**1089.7**
Total Assets	**A$m**	**747.4**	**973.8**	**1181.2**	**1258.8**	**1470.6**
Short Term Borrowings	A$m	89.5	89.5	89.5	89.5	89.5
Other	A$m	45.9	45.9	45.9	45.9	45.9
Total Curr. Liabilities	**A$m**	**135.4**	**135.4**	**135.4**	**135.4**	**135.4**
Long Term Borrowings	A$m	114.5	199.7	392.4	424.3	-
Other	A$m	34.3	(3.9)	(29.5)	(48.0)	180.5
Total Non-Curr. Liabil.	**A$m**	**148.8**	**195.7**	**362.9**	**376.3**	**180.5**
Total Liabilities	**A$m**	**284.2**	**331.1**	**498.3**	**511.7**	**315.9**
Net Assets	**A$m**	**463.1**	**642.7**	**683.0**	**747.1**	**1154.7**

Cashflow	Unit	FY2008A	FY2009E	FY2010E	FY2011E	FY2012F
Operating Cashflow	A$m	**(12.4)**	**(2.2)**	**78.0**	**68.8**	**985.8**
Income Tax Paid	A$m	**-**	**-**	**(8.6)**	**(27.9)**	**(292.5)**
Interest & Other	A$m	**-**	**(14.1)**	**(26.3)**	**(30.5)**	**(1.5)**
Operating Activities	**A$m**	**(12.4)**	**(16.4)**	**43.0**	**10.5**	**691.8**
Property, Plant & Equip.	A$m	**(1.0)**	**(396.6)**	**(192.2)**	**(50.2)**	**(51.0)**
Exploration/Development	A$m	**(196.8)**	**(60.0)**	**(50.0)**	**(25.0)**	**-**
Investments	A$m	**(100.5)**	**-**	**-**	**-**	**-**
Proceeds From Sale		**75.1**	**45.0**	**-**	**-**	**-**
Investment Activities	**A$m**	**(223.2)**	**(411.6)**	**(242.2)**	**(75.2)**	**(51.0)**
Repay / Draw Debt	A$m	**175.2**	**95.1**	**198.7**	**66.7**	**(424.3)**
Equity	A$m	**243.1**	**136.4**	**0.4**	**-**	**-**
Financing Activities	**A$m**	**418.3**	**231.5**	**199.1**	**66.7**	**(424.3)**
Net Cashflow	**A$m**	**182.7**	**(196.4)**	**(0.0)**	**2.0**	**216.5**

Ratio Analysis	Unit	FY2008A	FY2009E	FY2010E	FY2011E	FY2012F
Cashflow Per Share	A¢	(1.9)	(2.5)	5.7	1.4	91.9
Cashflow Multiple	X	(21.4)	(16.6)	7.3	29.9	0.5
Earnings Per Share	A¢	(3.4)	(0.3)	5.3	8.5	68.2
Price to Earnings Ratio	X	(12.3)	(164.5)	7.8	4.9	0.6
Dividends Per Share	A¢					
Dividend Yield	%					
Interest Cover	X	7.9 -	0.9	1.8	2.7	347.2
Return on Equity	%	5%	na	6%	9%	44%

Directors	Company Information
Mr Michael P Fowler (Chairman)	134-140 Little Lonsdale Street
Mr Ian Tchacos (Managing Director)	Melbourne, VIC, 3000
Mr Alastair Haydock	Tel: (03) 9660 2500
Mr Geoffrey J Simpson	Fax: (03) 9654 9303
Mr Neil Ferguson	Web: http://www.nexusenergy.com.au

Top 10 Shareholders (est. 15/06/08)	m shares	%
Top 10 Shareholders	Shares (m)	%
Viking Shipping Limited	95.9	14.9
Anzon Australia Limited	65.7	10.2
ANZ Nominees limited	39.8	6.2
HSBC Custody Nominees (Australia) Limited <GSI ECSA>	25.4	3.9
National Nominees Limited	16.5	2.6
HSBC Custody Nominees (Australia) Limited <GSCO ECA>	15.6	2.4
Citicorp Nominees Pty Limited <CFS W/sale GBL Res Fund A/C>	15.6	2.4
Citicorp Nominees Pty Limited	15.4	2.4
Pan Australian Nominees Pty Limited	10.5	1.6

2P Reserves as at 22/4/2008	Liquids (mmbbl)	Gas (PJ)	Total (mmboe)
*Attributable			
Longtom	4.00	350.00	**64.20**
Crux	63.90		**63.90**
Total (mmboe)	**67.90**	**350.00**	**128.10**

Production Summary	Unit	FY2008A	FY2009E	FY2010E	FY2011E	FY2012F
*Attributable						
Liquids	mmbbl	-	0.03	0.38	1.30	9.56
Gas	PJ	-	1.80	25.20	25.20	25.20
Total	**mmboe**	**-**	**0.33**	**4.58**	**5.50**	**13.76**

Price Assumptions	Unit	CY2008	CY2009	CY2010	CY2011	CY2012
Gas Price	AUD$/GJ	3.00	3.00	3.00	3.00	3.00
Liquids Price	US$/bbl	99.59	62.50	90.00	100.00	85.00
Exchange Rate	A$/US$	0.85	0.69	0.75	0.80	0.75

Hedging	Unit	FY2008A	FY2009E	FY2010E	FY2011E	FY2012F
Total Forward Sales - Oil	mmbbl					
Forward Oil Price	A$/bbl					

Sensitivity Analysis	Valuation ($/s)	NPAT	EPS (¢)	CFPS (¢)
Base Case	**3.18**	**513.7**	**68.2**	**91.9**
Oil Price +-10%	3.44	579.1	76.9	102.1
Oil Price --10%	2.93	448.3	59.5	81.7
Exchange Rate +-10%	2.95	454.2	60.3	82.6
Exchange Rate --10%	3.47	586.4	77.9	103.2
Spot (Oil US$42, FX 0.66)	2.05	209.9	27.9	43.9

**N.B. NPAT, EPS, CFPS forecasts are for FY2012*

Share Price Valuation (NAV)	$m	$/share
Crux @ 10%	1501.3	2.01
Longtom @ 10%	293.1	0.39
Exploration	649.7	0.87
Cash	75.0	0.10
Debt	(240.0)	(0.32)
Corp Admin	(84.3)	(0.11)
Options	178.3	0.24
Total	**2373.2**	**3.18**

10% real discount rate used for DCF (~13.3% nominal)

Analyst: David Wall
Phone: +61 8 9268 2826

Last Updated: 28/01/2009

Sources: IRESS, Company Information, Hartleys Research

HARTLEYS RESEARCH COVERAGE LIST

Hartleys Research Coverage Name		Ticker	Last Price*	M. CAP (A$m)	EV (A$m)	Hartleys Research Recommendation	Industry
	Oil & Gas						
1.	Woodside Petroleum Ltd	WPL	34.48	24,150	27,180	Buy	Oil and Gas
2.	Nexus Energy Ltd	NXS	0.410	265	430	Buy	Oil and Gas
3.	Carnarvon Petroleum Ltd	CVN	0.300	202	137	Buy	Oil and Gas
4.	Tap Oil Ltd	TAP	0.760	119	59	Buy	Oil and Gas
5.	Cooper Energy Ltd	COE	0.265	77	-6	Buy	Oil and Gas
6.	Amadeus Energy Ltd	AMU	0.280	56	112	Buy	Oil and Gas
7.	Oilex Ltd	OEX	0.255	45	33	Buy	Oil and Gas
8.	Strike Oil Ltd	STX	0.105	34	28	Buy	Oil and Gas
9.	First Australian Resources Ltd	FAR	0.038	21	16	Speculative Buy	Oil and Gas
10.	Red Fork Energy Ltd	RFE	0.190	17	11	Buy	Oil and Gas
11.	Adelphi Energy Ltd	ADI	0.120	13	11	Speculative Buy	Oil and Gas
12.	Sun Resources NL	SUR	0.032	7	4	Speculative Buy	Oil and Gas
			Sub-Total	25,007	28,014		
	Resources						
1.	Western Areas NL	WSA	3.77	634	821	Buy	Nickel
2.	Riversdale Mining Limited	RIV	2.34	440	97	Speculative Buy	Coal
3.	Atlas Iron Limited	AGO	1.19	354	259	Buy	Iron Ore
4.	Sundance Resources Limited	SDL	0.086	163	131	Speculative Buy	Iron Ore
5.	Jabiru Metals Limited	JML	0.115	57	63	Buy	Base Metals
6.	Ausquest Limited	AQD	0.105	24	-6	Speculative Buy	Junior Explorer
7.	Southern Gold Limited	SAU	0.053	7	5	Speculative Buy	Junior Explorer
8.	Shaw River Resources Limited	SRR	0.049	6	3	Speculative Buy	Junior Explorer
9.	Hazelwood Resources Ltd	HAZ	0.060	6	5	Speculative Buy	Junior Explorer
10.	BMA Gold Limited	BMO	0.011	5	4	Speculative Buy	Junior Explorer
11.	Eleckra Mines Limited	EKM	0.070	4	3	Speculative Buy	Junior Explorer
12.	Syndicated Metals Limited	SMD	0.084	3	-2	Speculative Buy	Junior Explorer
			Sub-Total	1,705	1,384		
	Industrials						
1.	West Australia News	WAN	4.27	879	1,211	Speculative Buy	Media
2.	Monadelphous Group Limited	MND	6.25	523	421	Reduce	Mining Services
3.	Clough Limited	CLO	0.315	210	199	Reduce	Oil & Gas / Mining Services
4.	Mermaid Marine Australia Ltd	MRM	1.03	186	222	Buy	Oil & Gas Services
5.	Fleetwood Corporation	FWD	3.54	179	194	Buy	Consumer & Mining Services
6.	Macmahon Holdings Limited	MAH	0.320	171	201	Buy	Mining & Civil Construction
7.	Ausdrill Limited	ASL	0.965	167	214	Buy	Mining Services
8.	Neptune Marine	NMS	0.305	89	77	Speculative Buy	Marine Services
9.	GRD Limited	GRD	0.370	71	129	Buy	Mining & Civil Services
10.	Imdex Ltd	IMD	0.300	56	79	Buy	Oil & Gas / Mining Services
11.	VDM Group Limited	VMG	0.445	50	113	Speculative Buy	Mining & Civil Construction
12.	RCR Tomlinson Ltd	RCR	0.400	49	105	Buy	Mining & Industrial Services
13.	Southern Cross Electrical	SXE	0.400	48	23	Neutral	Mining & Civil Construction
14.	Lycopodium Limited	LYL	1.25	47	42	Buy	Mining & Industrial Services
15.	NRW Holdings Ltd	NWH	0.185	45	140	Speculative Buy	Mining & Civil Construction
16.	Nomad Building Solutions Ltd	NOD	0.160	22	38	Neutral	Residential & Mining Services
17.	Paladio Group	PDO	0.175	20	13	No rating	Mining & Civil Construction
			Sub-Total	2,813	3,421		
			GRAND TOTAL	29,525	32,819		

Source: IRESS, Hartleys Research. * 28 Jan 2009

HARTLEYS CORPORATE DIRECTORY

Research

Trent Barnett	Senior Industrial Analyst	+61 8 9268 3052
Nikki Ermongkonchai	Industrial Analyst	+61 8 9268 2837
Andrew Muir	Resources Analyst	+61 8 9268 3045
David Wall	Oil and Gas Analyst	+61 8 9268 2826

Corporate Finance

Richard Simpson	Head of Corporate Finance	+61 8 9268 2824
Grey Egerton-Warburton	Lead Director-Corporate Finance	+61 8 9268 2851
Paul Fryer	Director-Corporate Finance	+61 8 9268 2819
Dale Bryan	Assoc Director-Corp Finance	+61 8 9268 2829
Ben Wale	Manager - Corporate Finance	+61 8 9268 3055

Registered Office

Level 6, 141 St Georges Tce
Perth WA 6000
Australia

Postal Address
GPO Box 2777
Perth WA 6001
Australia

Contact Details

Telephone:	+61 8 9268 2888
Facsimile:	+61 8 9268 2800
Website:	www.hartleys.com.au
Email:	info@hartleys.com.au

Note: personal email addresses of company employees are structured in the following manner: firstname_lastname@hartleys.com.au

Hartleys Recommendation Categories

No Rating	No recommendation.
Buy	Share price appreciation anticipated
Speculative Buy	Share price appreciation anticipated but it is higher risk than a “Buy”. For the share price to rise it may be contingent on the outcome of an uncertain or distant event.
Neutral	Take no action. Stock is already trading near the share price target and there are no foreseeable near term catalysts.
Reduce / Take profits	Stock is trading above the share price target and there is a near term negative catalyst that could cause temporary weakness.
Sell	Significant price depreciation anticipated

Institutional Sales

Carrick Ryan	+61 8 9268 2864
Darren Reed	+61 8 9268 3053
Simon van den Berg	+61 8 9268 2867

Wealth Management

Nicola Bond	+61 8 9268 2840
Bradley Booth	+61 8 9268 2873
Nathan Bray	+61 8 9268 2874
Sven Burrell	+61 8 9268 2847
Simon Casey	+61 8 9268 2875
Tony Chien	+61 8 9268 2850
Travis Clark	+61 8 9268 2876
David Cross	+61 8 9268 2860
Nicholas Draper	+61 8 9268 2883
John Featherby	+61 8 9268 2811
Ben Fleay	+61 8 9268 2844
John Georgiades	+61 8 9268 2887
John Goodlad	+61 8 9268 2890
Andrew Gribble	+61 8 9268 2842
Neil Inglis	+61 8 9268 2894
Murray Jacob	+61 8 9268 2892
Gavin Lehmann	+61 8 9268 2895
Shane Lehmann	+61 8 9268 2897
Steven Loxley	+61 8 9268 2857
Andrew Macnaughtan	+61 8 9268 2898
Christian Marriott	+61 8 9268 2828
Scott Metcalf	+61 8 9268 2807
David Michael	+61 8 9268 2835
Nicole Morcombe	+61 8 9268 2896
Jamie Moullin	+61 8 9268 2856
Chris Munro	+61 8 9268 2858
Michael Munro	+61 8 9268 2820
Ian Parker	+61 8 9268 2810
Ian Plowman	+61 8 9268 3054
Margaret Radici	+61 8 9268 3051
Charlie Ransom (CEO)	+61 8 9268 2868
Conlie Salvemini	+61 8 9268 2833
David Smyth	+61 8 9268 2839
Greg Soudure	+61 8 9268 2834
Sonya Soudure	+61 8 9268 2865
Dirk Vanderstruyf	+61 8 9268 2855
Marlene White	+61 8 9268 2806