

NEXUS ENERGY LTD

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.

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 (Chairman)
Ian Tchacos (Managing Director)

Top Shareholders:

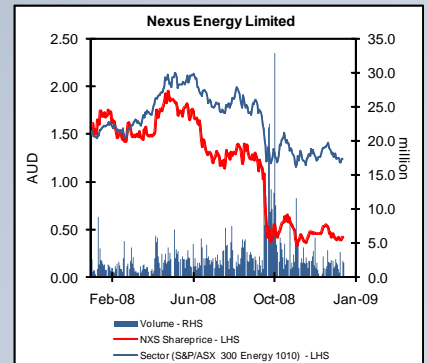
Viking Shipping Limited (14.9%)
Anzon Australia Limited (10.2%)
ANZ Nominees limited (6.2%)

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:

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SUMMARY MODEL

Nexus Energy Limited NXS						Share Price \$0.42	January 2009 BUY							
Key Market Information							Directors							
Share Price \$0.42							Company Information							
Market Capitalisation \$268m							Mr Michael P Fowler (Chairman) 134-140 Little Lonsdale Street							
52 Week High-Low \$1.98-\$0.31							Mr Ian Tchacos (Managing Director) Melbourne, VIC, 3000							
Issued Capital 645.4m							Mr Alastair Haydock Tel: (03) 9660 2500							
Issued Capital (fully diluted incl. ITM options) 745.4m							Mr Geoffrey J Simpson Fax: (03) 9654 9303							
Options 39.4m@ \$1.98							Mr Neil Ferguson Web: http://www.nexusenergy.com.au							
Hedging							Top 10 Shareholders (est. 15/06/08)							
Yearly Turnover/Volume \$864.2m/819.0m shares							m shares %							
Liquidity Measure (Yearly Turnover/Issued Capital) 127%							Top 10 Shareholders							
Valuation							Shares (m) %							
Discounted Cashflow @ 10% Real \$3.18							Viking Shipping Limited 95.9 14.9							
12 Month Price Target \$1.59							Anzon Australia Limited 65.7 10.2							
Financial Performance							ANZ Nominees limited 39.8 6.2							
	Unit	FY2008A	FY2009E	FY2010E	FY2011E	FY2012F	HSBC Custody Nominees (Australia) Limited <GSI ECSA> 25.4 3.9							
Net Revenue	A\$m	7.8	5.9	92.0	211.5	1127.4	National Nominees Limited 16.5 2.6							
Opex / Exploration	A\$m	(32.1)	(64.1)	(57.9)	(133.5)	(145.4)	HSBC Custody Nominees (Australia) Limited <GSCO ECSA> 15.6 2.4							
Secondary Tax Expense	A\$m	-	46.8	34.1	34.3	(346.3)	Citicorp Nominees Pty Limited <CFS W/sale GBL Res Fund A/C> 15.6 2.4							
Total Costs/Writeoffs	A\$m	(32.1)	(17.3)	(23.8)	(99.2)	(491.6)	Citicorp Nominees Pty Limited 15.4 2.4							
EBITDA	A\$m	(24.3)	(11.4)	68.2	112.2	635.8	Pan Australian Nominees Pty Limited 10.5 1.6							
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)	(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							2P Reserves as at 22/4/2008							
	Unit	FY2008A	FY2009E	FY2010E	FY2011E	FY2012F		Liquids (mmbbl)	Gas (P.J)	Total (mmboe)				
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								
Total 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							Production Summary							
	Unit	FY2008A	FY2009E	FY2010E	FY2011E	FY2012F		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	A\$m	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							Price Assumptions							
	Unit	FY2008A	FY2009E	FY2010E	FY2011E	FY2012F		Unit	CY2008	CY2009	CY2010	CY2011	CY2012	
Cashflow Per Share	A¢	(1.9)	(2.5)	5.7	1.4	91.9		Gas Price	AUD\$/GJ	3.00	3.00	3.00	3.00	3.00
Cashflow Multiple	X	(21.4)	(16.6)	7.3	29.9	0.5		Liquids Price	US\$/bbl	99.59	62.50	90.00	100.00	85.00
Earnings Per Share	A¢	(3.4)	(0.3)	5.3	8.5	68.2		Exchange Rate	A\$/US\$	0.85	0.69	0.75	0.80	0.75
Price to Earnings Ratio	X	(12.3)	(164.5)	7.8	4.9	0.6		Hedging						
Dividends Per Share	A¢	-	-	-	-	-		Unit	FY2008A	FY2009E	FY2010E	FY2011E	FY2012F	
Dividend Yield	%	-	-	-	-	-		Total Forward Sales - Oil	mmbbl	-	-	-	-	-
Interest Cover	X	7.9	0.9	1.8	2.7	347.2		Forward Oil Price	A\$/bbl	-	-	-	-	-
Return on Equity	%	5%	na	6%	9%	44%		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							Last Updated: 28/01/2009							
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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

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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

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