Hartleys

NXS.asx
Speculative Buy

NEXUS ENERGY LTD

First Production Achieved

Nexus Energy Limited ("Nexus", "NXS", "Company") has announced first gas at its 100% owned Longtom Gas Project, located in the Gippsland Basin, offshore Victoria. Commissioning is currently underway and we expect gas sales in the first year to average around 70% of the contracted rate of 68 terajoules per day.

The project should generate A$65m in after tax cash flow per annum for its first few years of production whilst it utilises deductible expenditure and tax losses to offset secondary and corporate tax payable. We estimate the net present value of the project (pre-debt) at A$506m. The Company currently has debt of ~A$300m, including A$35m payable to AED Oil Ltd as part of an unconsummated transaction to purchase part of the Longtom asset.

Nexus has flagged that it is still planning to divest 20-50% of Longtom, and we believe that it will be able to achieve a competitive price now that the project is in production. This will assist the Company to meet its debt repayment requirements as well as fund the purchase of long lead items required for its Crux Liquids Project.

Crux Retains Value, Hurdles Can be Overcome

We estimate that Nexus' 85% owned Crux Liquids Project is worth A$1.4b on a 100% basis. The Company is currently negotiating partial sale of the asset to defray risk and assist with the funding of US$650m of upfront capital required for development. Potential hurdles for the project include:

- The project is a liquids stripping operation, which requires production of the gas and liquids together, separation of the liquids for sale and then re-injection of the gas. The injection rates proposed by the Company have been achieved at other projects; however, never from a floating production vessel. We believe that this adds only incrementally to the operational risk of the project and do not see this as a major hurdle as it is largely an application of existing technology in a slightly more challenging environment.
- Nexus pre-sold the gas rights for Crux to Shell whereby the permit will be ceded to Shell at the end of 2020. If Nexus does not commence development of the liquids project prior to this, then it will retain the rights to the liquids in the case of any development by Shell. This adds a level of complexity to the structure of any deal; however, we believe that, at the rates proposed, the Company should be able to extract the majority of the liquids over a 7 year time-period.

Value Potential 150cps

Nexus has recently raised $74m in an underwritten rights issue and had cash of $55m as at the end of June. In combination with the undrawn $46m in project debt for Longtom, this should more than cover all outgoings prior to a final investment decision on Crux. We have assumed that the proceeds from a 30% sale of Longtom and a 35% sale of Crux will cover any expenditure commitments for the medium term. Under these assumptions, we value Nexus at 150cps; however, have discounted this heavily in our 6 month price target to 53cps to account for risk associated with the farmout of Crux and poor investor sentiment. We will look to upgrade our price target as Nexus achieves additional milestones over the next few months, especially any progress related to a Crux transaction.

23 Oct 2009

Share Price:	$0.38
6mth Price Target:	$0.53

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

Hartleys Brief Investment Conclusion
Near term asset or corporate transaction likely. Needs exploration success or market recovery for significant share price appreciation.

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

Top Shareholders:
Viking Shipping Limited (7.3%)
Anzon Australia Limited (6%)
ANZ Nominees limited (4.2%)

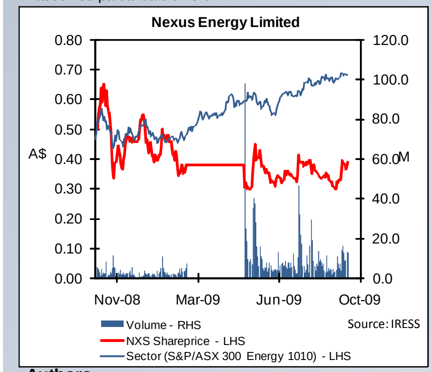
Company Address:
Level 8, 28 Freshwater Place
Southbank VIC 3006

Valuation:	$1.50
Issued Capital:	940.3m
- fully diluted	940.3m
Market Cap:	$352.6m
- fully diluted	$352.6m
Debt (est. 31 Jun '09)*:	-$301.0m
Cash (est. 31 Jun '09):	$120.0m

*includes future proceeds from Longtom transaction

	FY08a	FY09e	FY10e
Prodn (mmboe)	0.000	0.000	0.801
Op Cash Flw	-$12.4m	-$14.1m	-$5.6m
Free Cash Flw	-$235.6m	-$214.8m	$252.6m
NPAT (A$m)	-$21.7m	-$50.4m	$10.6m
EPS ($, bas)	-3.4x	-7.8x	1.1x
P/E (basic)	-11.1x	-4.8x	33.4x
EV / EBITDA	-22.0x	-10.2x	15.0x
DPS ($)	-	-	-
Franking	100%	100%	100%
Dividend Yield	0.0%	0.0%	0.0%
N.D. / equity	74%	50%	8%
Chg in Cash	182.7	-168.8	221.4
- per share			
Net Cash End	$223.8m	$55.4m	$267.0m
2P Reserves (mmboe)*		96	
EV / 2P Reserve		$5.6	

Source: Hartleys Research
* assumes partial sale of Crux



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SUMMARY MODEL

Nexus Energy Limited — **Share Price**
NXS — **$0.38**

October 2009
SPECULATIVE BUY

Key Market Information	
Share Price	**$0.38**
Market Capitalisation	$353m
52 Week High-Low	$1.84-$0.29
Issued Capital	940.3m
Issued Capital (fully diluted inc. ITM options)	940.3m
Options	0.00
Hedging	
Yearly Turnover/Volume	$642.8m/866.9m shares
Liquidity Measure (Yearly Turnover/Issued Capital)	152%
Valuation	
Discounted Cashflow @10% Real	$1.50
6 Month Price Target	$0.53

Financial Performance	Unit	FY2008A	FY2009A	FY2010E	FY2011E	FY2012F
Net Revenue	**A$m**	**7.8**	**85.4**	**17.2**	**69.7**	**72.3**
Opex / Exploration	**A$m**	(32.1)	(137.9)	(30.8)	(51.8)	(51.8)
Secondary Tax Expense	**A$m**	-	-	49.3	45.9	52.2
Total Costs/Writeoffs	**A$m**	**(32.1)**	**(137.9)**	**18.5**	**(5.9)**	**0.4**
EBITDA	A$m	**(24.3)**	**(52.5)**	**35.7**	**63.8**	**72.7**
Depreciation/Amort	A$m	**(0.5)**	**(1.0)**	**(5.0)**	**(20.0)**	**(20.6)**
EBIT	**A$m**	**(24.8)**	**(53.4)**	**30.7**	**43.8**	**52.1**
Net Interest	A$m	**3.1**	**(33.8)**	**(12.8)**	**(2.7)**	**-**
Pre-Tax Profit	**A$m**	**(21.7)**	**(87.2)**	**17.9**	**41.1**	**52.1**
Tax Expense	A$m		**36.8**	**(7.3)**	**(14.8)**	**(17.2)**
NPAT	**A$m**	**(21.7)**	**(50.4)**	**10.6**	**26.4**	**35.0**
Abnormal Items	A$m	**46.5**	**-**	**140.0**	**-**	
Reported Profit	A$m	**24.9**	**(50.4)**	**150.6**	**26.4**	**35.0**

Financial Position	Unit	FY2008A	FY2009A	FY2010E	FY2011E	FY2012F
Cash	**A$m**	**223.8**	**55.4**	**267.0**	**37.6**	**25.0**
Other Current Assets	A$m	23.8	20.1	24.3	26.1	26.4
Total Current Assets	**A$m**	**247.6**	**75.5**	**291.2**	**63.7**	**51.4**
Property, Plant & Equip.	A$m	-	655.6	810.6	940.1	949.6
Exploration & Dev.	A$m	401.1	31.1	36.1	46.1	56.1
Investments/other	A$m	98.6	62.5	62.5	62.5	62.5
Tot Non-Curr. Assets	**A$m**	**499.8**	**749.3**	**909.3**	**1048.8**	**1068.2**
Total Assets	**A$m**	**747.4**	**824.7**	**1200.5**	**1112.4**	**1119.6**
Short Term Borrowings	A$m	89.5	-	-	-	-
Other	A$m	45.9	55.9	55.9	55.9	55.9
Total Curr. Liabilities	**A$m**	**135.4**	**55.9**	**55.9**	**55.9**	**55.9**
Long Term Borrowings	A$m	195.2	225.0	85.0	-	6.1
Other	A$m	34.3	92.3	57.2	19.1	(20.7)
Total Non-Curr. Liabil.	**A$m**	**229.5**	**317.3**	**142.2**	**19.1**	**(14.6)**
Total Liabilities	**A$m**	**364.9**	**373.1**	**198.1**	**75.0**	**41.2**
Net Assets	**A$m**	**382.5**	**451.6**	**1002.4**	**1037.5**	**1078.4**

Cashflow	Unit	FY2008A	FY2009A	FY2010E	FY2011E	FY2012F
Operating Cashflow	A$m	**(12.4)**	**(1.8)**	**8.5**	**62.3**	**66.5**
Income Tax Paid	A$m	**-**	**-**	**(1.3)**	**(7.2)**	**(5.2)**
Interest & Other	A$m	**-**	**(12.3)**	**(12.8)**	**(2.7)**	**-**
Operating Activities	**A$m**	**(12.4)**	**(14.1)**	**(5.6)**	**52.5**	**61.3**
Property, Plant & Equip.	A$m	**(1.0)**	**(1.0)**	**(160.0)**	**(149.5)**	**(30.0)**
Exploration/Development	A$m	**(196.8)**	**(333.2)**	**(25.0)**	**(50.0)**	**(50.0)**
Investments	A$m	**(100.5)**	**-**	**-**	**-**	**-**
Proceeds From Sale		**75.1**	**131.8**	**450.0**	**-**	**-**
Investment Activities	**A$m**	**(223.2)**	**(202.4)**	**265.0**	**(199.5)**	**(80.0)**
Repay / Draw Debt	A$m	**175.2**	**39.5**	**(113.0)**	**(60.0)**	**40.1**
Equity	A$m	**243.1**	**8.3**	**75.0**	**-**	**-**
Financing Activities	**A$m**	**418.3**	**47.8**	**(38.0)**	**(60.0)**	**40.1**
Net Cashflow	**A$m**	**182.7**	**(168.8)**	**221.4**	**(207.0)**	**21.4**

Ratio Analysis	Unit	FY2008A	FY2009A	FY2010E	FY2011E	FY2012F
Cashflow Per Share	A¢	(1.9)	(2.2)	(0.6)	5.6	6.5
Cashflow Multiple	X	(19.4)	(17.2)	(63.0)	6.7	5.7
Earnings Per Share	A¢	(3.4)	(7.8)	1.1	2.8	3.7
Price to Earnings Ratio	X	(11.1)	(4.8)	33.4	13.4	10.1
Dividends Per Share	A¢					
Dividend Yield	%					
Interest Cover	X	7.9 -	1.6	2.4	16.5	-
Return on Equity	%	7%	na	15%	3%	3%

Directors	Company Information
Mr Michael P Fowler (Chairman)	Level 8, 28 Freshwater Place
Mr Ian Tchacos (Managing Director)	Southbank VIC 3006
Mr Alastair Haydock	Tel: (03) 9660 2500
Mr Michael Arnett	Fax: (03) 9654 9303
Mr Neil Ferguson	Web: http://www.nexusenergy.com.au

Top 10 Shareholders (est. 1/06/09)	m shares	%
Viking Shipping Limited	68.7	7.3
Anzon Australia Limited	56.1	6.0
ANZ Nominees limited	39.8	4.2
HSBC Custody Nominees (Australia) Limited <GSI ECSA>	25.4	2.7
National Nominees Limited	16.5	1.8
HSBC Custody Nominees (Australia) Limited <GSCO ECA>	15.6	1.7
Citicorp Nominees Pty Limited <CFS W/sale GBL Res Fund A/C>	15.6	1.7
Citicorp Nominees Pty Limited	15.4	1.6
Pan Australian Nominees Pty Limited	10.5	1.1
HSBC Custody Nominees (Australia) Limited	9.9	1.0

2P Reserves as at 22/4/2008	Liquids (mmbbl)	Gas (PJ)	Total (mmboe)
*Attributable			
Longtom	2.00	175.00	**32.10**
Crux	63.90		**63.90**
Total (mmboe)	**65.90**	**175.00**	**96.00**

Production Summary	Unit	FY2008A	FY2009A	FY2010E	FY2011E	FY2012F
*Attributable						
Liquids	mmbbl	-	-	0.07	0.26	0.26
Gas	PJ	-	-	4.41	17.64	17.64
Total	**mmboe**	**-**	**-**	**0.80**	**3.20**	**3.20**

Price Assumptions	Unit	CY2008	CY2009	CY2010	CY2011	CY2012
Gas Price	AUD$/GJ	3.00	3.50	4.00	4.50	5.50
Liquids Price	US$/bbl	99.59	60.13	70.00	80.00	85.00
Exchange Rate	A$/US$	0.85	0.77	0.75	0.80	0.75

Hedging	Unit	FY2008A	FY2009A	FY2010E	FY2011E	FY2012F
Total Forward Sales - Oil	mmbbl					
Forward Oil Price	A$/bbl					

Sensitivity Analysis	Valuation ($/s)	NPAT	EPS (¢)	CFPS (¢)
Base Case	**1.50**	**35.0**	**3.7**	**6.5**
Oil Price +-10%	1.61	36.2	3.8	6.7
Oil Price --10%	1.39	33.8	3.6	6.3
Exchange Rate +-10%	1.40	33.9	3.6	6.3
Exchange Rate --10%	1.63	36.3	3.9	6.8
Spot (Oil US$80, FX 0.92)	1.25	32.8	3.5	6.2

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

Share Price Valuation (NAV)	$m	$/share
Crux @ 10%*	720.4	0.77
Longtom @ 10%#	354.3	0.38
Exploration	445.9	0.47
Cash	120.0	0.13
Debt	(301.0)	(0.32)
Corp Admin	(51.1)	(0.05)
Options	124.9	0.13
Total	**1413.3**	**1.50**

\# assumes sale of 30% of asset
* assumes sale of 35% of asset

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

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Phone: +61 8 9268 2826

Last Updated: 23/10/2009

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	52.68	36,800	39,697	Buy	Major
2.	Eastern Star Gas Ltd	ESG	0.950	775	697	Buy	Producer / Explorer
3.	Carnarvon Petroleum Ltd	CVN	0.575	393	359	Buy	Producer / Explorer
4.	Nexus Energy Ltd	NXS	0.380	357	514	Speculative Buy	Developer / Explorer
5.	Tap Oil Ltd	TAP	1.09	171	117	Buy	Producer / Explorer
6.	Red Fork Energy Ltd	RFE	1.10	151	123	Buy	Explorer / Producer
7.	Cooper Energy Ltd	COE	0.470	137	41	Buy	Producer / Explorer
8.	Amadeus Energy Ltd	AMU	0.305	91	122	Buy	Producer / Explorer
9.	Strike Oil Ltd	STX	0.250	82	75	Buy	Explorer / Producer
10.	Oilex Ltd	OEX	0.315	71	51	Speculative Buy	Explorer / Producer
11.	European Gas Ltd	EPG	0.165	33	97	Speculative Buy	Producer / Explorer
12.	Sun Resources NL	SUR	0.089	30	21	Speculative Buy	Explorer / Producer
13.	First Australian Resources Ltd	FAR	0.046	30	10	Speculative Buy	Explorer / Producer
14.	Adelphi Energy Ltd	ADI	0.165	24	17	Speculative Buy	Junior
			Sub-Total	39,144	41,940		
	Resources						
1.	Riversdale Mining Limited	RIV	5.94	1,119	793	Speculative Buy	Coal
2.	Western Areas NL	WSA	5.120	861	1,098	Buy	Nickel
3.	Atlas Iron Limited	AGO	1.84	735	685	Buy	Iron Ore
4.	Medusa Mining Limited	MML	3.440	580	547	No Rating	Gold
5.	Dominion Mining Limited	DOM	3.730	384	432	Speculative Buy	Gold
6.	Jabiru Metals Limited	JML	0.455	248	229	Buy	Zinc-Copper
7.	Gold One International Limited	GDO	0.320	230	144	Buy	Gold
8.	Silver Lake Resources	SLR	0.860	153	132	Speculative Buy	Gold
9.	Intrepid Mines Limited	IAU	0.355	152	105	Speculative Buy	Gold
10.	Magma Metals Limited	MMB	0.690	112	92	Speculative Buy	PGM-Cu-Ni
11.	Peninsula Minerals Ltd	PEN	0.055	75	61	Speculative Buy	Uranium Developer / Explorer
12.	Emmerson Resources Limited	ERM	0.315	64	52	Speculative Buy	Junior Explorer
13.	Orion Gold NL	ORN	0.070	52	48	Speculative Buy	Gold
14.	Ausquest Limited	AQD	0.190	43	17	Speculative Buy	Junior Explorer
15.	YTC Resources Limited	YTC	0.230	35	23	Buy	Junior Explorer
16.	Shaw River Resources Limited	SRR	0.225	30	27	Speculative Buy	Junior Explorer
17.	Impact Minerals Limited	IPT	0.245	23	19	Speculative Buy	Junior Explorer
18.	Hazelwood Resources Ltd	HAZ	0.195	20	18	Speculative Buy	Junior Explorer
19.	Southern Gold Limited	SAU	0.115	14	12	Speculative Buy	Junior Explorer
			Sub-Total	4,875	4,486		
	Industrials						
1.	West Australia News Hdgs Ltd	WAN	7.96	1,715	2,018	Buy	Media
2.	Monadelphous Group Limited	MND	13.630	1,157	1,027	Neutral	Mining Services
3.	Clough Limited	CLO	0.880	588	634	No Rating	Oil & Gas Services
4.	Mermaid Marine Australia Ltd	MRM	2.810	512	564	Buy	Oil & Gas Services
5.	Macmahon Holdings Limited	MAH	0.645	473	475	Speculative Buy	Mining & Civil Construction
6.	Austal Limited	ASB	2.500	470	376	Speculative Buy	Capital Goods
7.	NRW Holdings Ltd	NWH	1.81	453	494	Buy	Mining & Civil Construction
8.	Fleetwood Corporation	FWD	7.88	407	418	Buy	Consumer & Mining Services
9.	Neptune Marine Ltd	NMS	0.845	375	350	Buy	Marine Services
10.	Ausdrill Limited	ASL	1.66	348	569	Buy	Onshore Drilling & Mining
11.	Cash Converters Limited	CCV	0.585	213	164	Buy	Retail & Consumer Finance
12.	Southern Cross Electrical	SXE	1.64	197	173	Buy	Mining & Civil Construction
13.	Imdex Ltd	IMD	0.910	176	198	Buy	Oil & Gas / Mining Services
14.	Decmil Group Limited	DCG	1.38	162	144	Buy	Mining & Civil Construction
15.	RCR Tomlinson Ltd	RCR	1.180	153	202	Buy	Mining & Industrial Services
16.	Nomad Building Solutions Ltd	NOD	0.830	112	138	Neutral	Residential & Mining Services
17.	Lycopodium Limited	LYL	2.900	110	106	Neutral	Mining & Industrial Services
18.	GRD Limited	GRD	0.540	104	138	Buy	Mining & Civil Services
19.	Swick Mining Services Ltd	SWK	0.595	91	145	Buy	Mining Services
20.	VDM Group Limited	VMG	0.600	78	151	Speculative Buy	Mining & Civil Construction
			Sub-Total	7,896	8,486		
			GRAND TOTAL	51,914	54,911		

Source: IRESS, Hartleys Research. * 23 Oct 2009

HARTLEYS CORPORATE DIRECTORY

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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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