

# BBY Limited

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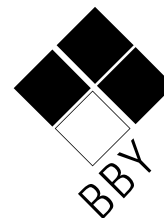
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## Linc Energy Limited

### Pleasing Interim Drilling Results

# LNC

# \$0.26

# BUY

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BBY maintains its BUY recommendation on Linc Energy Limited (LNC) with a DCF valuation of A\$1.52/sh and a 12-month price target of A\$0.60/sh after the company released pleasing interim coal drilling results today. LNC earlier this week also announced that it had entered into a Cultural Heritage Management Program (CHMP) with two Aboriginal tribes, an important positive step in the process to obtain Environmental Impact Study (EIS) approval for the 20,000 bbl per day Gas to Liquids (GTL) plant. Both these developments reiterate BBY's positive view on LNC. We expect a progressive re-rating of the stock to occur as the company continues to meet and exceed prospectus milestones.

### Key Highlights

- ▶ **Drilling Exploration Program** – There have been over 81 exploration drill holes now completed, covering 12,198m of drilling in total. Further drilling programs are expected to double the number of holes drilled in the project area.
  - The company's prospectus target of proving up approximately 300 million tonnes of coal resource, which would potentially supply 60 years of coal to LNC's project, looks likely to be exceeded.
  - Although not JORC coded at this stage, BBY has estimated from the report prepared by Triassic Geological Services Pty Ltd that between 210 million tonnes to 248 million tonnes of coal exist in the tenements drilled to date. We expect this to be confirmed in the next set of drilling results.
  - LNC has also **only** drilled a small percentage of the available tenements that it owns - BBY estimates that there is potential for up to 800 million to 1 billion tonnes of coal to be proved up in the medium term.
  - LNC will recommence its drilling program shortly using its own drill crew and rig.
- ▶ **Cultural Heritage Management Program (CHMP)** – The agreement with the Barunggam and Western Wakka Wakka Aboriginal People is an important milestone for LNC in terms of obtaining EIS approval for the 20,000 bbl per day GTL plant. BBY expects that final EIS approval will be given early in CY2008.

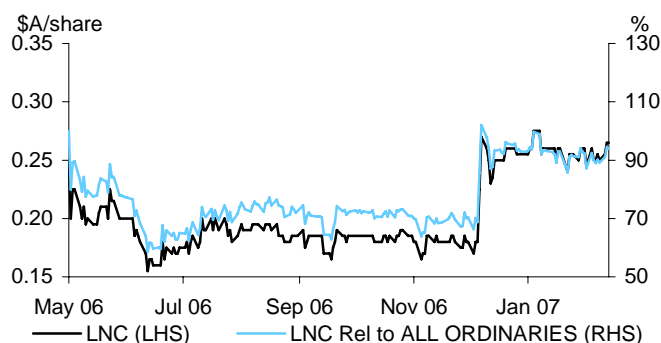
### Our View

BBY views this week's announcements positively. We await further drilling results as well confirmation of successful commissioning of the GTL pilot plant which is expected to be completed mid CY07.

### Company Data

Number of shares	320.8M
Market capitalisation	\$83.4M
12 month high/low	\$0.30 / \$0.15
Average monthly turnover	\$1.5M
All Ordinaries Index	5988
% All Ordinaries	na

### LNC versus ALL ORDINARIES Index



### Key Milestone Timing

- ▶ **Further Drilling results** – Within the next six week and continuous throughout the year
- ▶ **Commissioning of GTL pilot plant** – Mid CY07
- ▶ **EIS approvals for the 20,000 barrel per day GTL plant** – Early CY08



ANALYSIS OF INTEGRATED GAS PRODUCTION & GTL (A\$)

**Gas Production**

Plant capacity	20,000 bbl/day	Plant Availability Time	7,920 hours / year
Availability Factor	90.4 %	Total Gas Production	11,064,424,587 Nm3 / year
Gas Production	1,397,023 Nm3 / hour	Total Energy Output	57,866,941 GJ / year
Gas Calorific Value	5.23 MJ / Nm3		

**By-Product Production - Hydrocarbons**

Hydrocarbon Production	15.27 g / Nm3	Total Hydrocarbon Production	168,996 tn / year
Sale Value of Hydrocarbons	100 \$ / tn	Total Hydrocarbon Revenue	16,899,589 \$ / year

**By-Product Production - Naphtha**

Naphtalene Production	10.16 g / Nm3	Total Naphtalene Production	112,415 tn / year
Sale Value of Naphtha	400 \$ / tn	Total Naphtalene Revenue	44,965,822 \$ / year

**Diesel Production**

GTL Plant Energy Efficiency	70 %	Diesel Calorific Value	6.137 GJ / barrel
Maximum Energy Output	40,506,858 GJ / year	Maximum Diesel Production	6,600,003 barrels / year
Availability Factor - year 1	85.0 %	Diesel Production - year 1	5,610,003 barrels / year
Availability Factor - year 2	90.0 %	Diesel Production - year 2	5,940,003 barrels / year
Availability Factor - years 3+	95.0 %	Diesel Production - years 3+	6,270,003 barrels / year
Diesel Selling Price * 52 US\$ / bbl	74.29 \$ / barrel	Total Diesel Revenue (Year 3+):	465,771,640 barrels / year
Federal Tax Exemption	no	Federal Tax Rate	0.36 \$/litre

**Economic Factors**

Debt	60.0 %
Equity	40.0 %
Exchange Rate \$/US\$	0.7

**WACC:**

15.0 %

**Capital Expenditure Details**

Gas Process Plant	70,000,000 \$	Total Capital Required	650,000,000 \$
Clean Up Plant	180,000,000 \$		
GTL Plant	400,000,000 \$		

**Operating Costs**

Gas Process Plant	28,900,000 \$ / year	Total Opex	93,100,000 \$ / year
Clean Up Plant	14,200,000 \$ / year		
GTL Plant	50,000,000 \$ / year		

**Summary per year (no inflation)**

Total Revenues (year 3+)	527,637,051 \$ / year
Total Opex	93,100,000 \$ / year
Total Site Admin Cost	4,000,000 \$ / year
Total HQ Admin Cost	7,000,000 \$ / year
Federal Tax Exemption	0 \$ / year

DCF @ 15 %	884,206,596 \$
Internal Rate of Return	37.41 %
Discounted Payback	7 years = 2013
Plant Capacity to Break Even	1,616 bbl/day

**EBITDA**

423,537,051 \$ / year

Note: \* based on 42 US\$ / oil barrel

Source: BBY/LNC



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Linc Energy entered into an agreement with BBY under which BBY agreed to act as lead manager to the Linc Energy Initial Public Offering of Shares. BBY received fees in respect of this capital raising.

Contact with LNC has been made during the preparation of this report for assistance with verification of facts.

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