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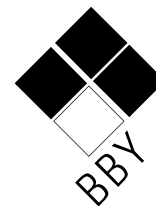
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Linc Energy Limited

Only a Few Weeks Away.....

LNC

**A\$1.47
BUY**

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Linc Energy Limited (LNC) is now only a few weeks away from finishing commissioning of its Gas to Liquids (GTL) pilot plant located in Chinchilla, QLD. Successful commissioning would be a major milestone for the company and would allow it to move to Stage 2 of its business plan – constructing a commercial 20,000 barrel per day facility. LNC is becoming a significant player, both in the domestic and international markets in the UCG and GTL spaces having over the past year signed MOU's with Marubeni, VINACOMIN, Shiv-Vani and Sapex Limited (ASX:SXP). We increase our 12 month price target to A\$2.10/sh as the company nears finalisation of commissioning. We also provide two sensitivity analyses based on different oil price and WACC assumptions in relation to our DCF valuation.

- ▶ Commissioning of LNC's pilot plant in Chinchilla is progressing. We understand that there have been some slight delays primarily as a result of piping arriving late on site. We estimate that commissioning will be finalised by the end of May/beginning of June 2008.
- ▶ BBY recently went on a site visit to LNC's facility. We attach some photographs from our visit (Figure 1 and Figure 2). We met with the site manager, the UCG manager as well as a number of other workers on site.

Expected time line of key events for GTL facility

- ▶ **Late May/early June 2008** – Finish commissioning of pilot GTL plant.
- ▶ **July 2008** – Embark on BFS for commercial 20,000 barrel per day facility
- ▶ **End of CY08/early CY09** – Complete raising (both debt and equity) for commercial facility.
- ▶ **By the end of CY08** – Finish all Environmental Impact Study (EIS) approvals.

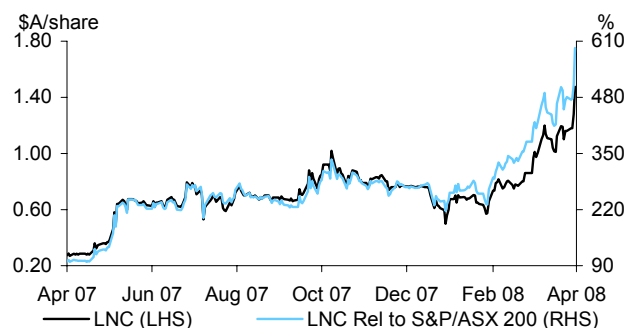
Our View

Whilst there still remains some risks associated with the commissioning of LNC's pilot plant (any further delays or problems with commissioning would impact the share price negatively), we continue to remain positive on the direction and business plan that the company is embarking on. Maintain BUY.

Company Data

Number of shares	389.6M
Market capitalisation	\$572.7M
12 month high/low	\$1.80/ \$0.27
Average monthly turnover	\$9.0M
All Ordinaries Index	5675
% All Ordinaries	n/a

LNC versus S&P/ASX 200 Index



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SENSITIVITY ANALYSIS

Our Base Case DCF valuation for LNC is A\$1.49/sh. This is based on the following key assumptions:

- ▶ A WACC of 15%;
- ▶ A long term oil price of US\$50/barrel (in-line with the Jefferies oil price assumptions); and
- ▶ LNC conducting an equity capital raising for its commercial plant at A\$1.00/sh (assuming a 70/30 debt to equity split).

Due to the recent strengthening in LNC's share price, we provide analysis showing the sensitivity to our DCF valuation at different: (i) long term oil prices; (ii) adjustments to the WACC; and (iii) share price levels at which LNC would conduct their capital raising at.

Scenario 1

In the first sensitivity analysis, we have assumed a capital raising at A\$1.40/sh.

TABLE 1: SENSITIVITY ANALYSIS 1 - DCF VALUATION (A\$M) ASSUMING A CAPITAL RAISING CONDUCTED AT A\$1.40/SH

		Flat Long Term Oil Price (per barrel)						
		US\$50	US\$60	US\$70	US\$80	US\$90	US\$100	US\$110
WACC	10%	3.32	4.07	4.99	5.92	6.85	7.77	8.70
	11%	2.89	3.55	4.37	5.20	6.03	6.86	7.68
	12%	2.51	3.11	3.85	4.59	5.33	6.08	6.82
	13%	2.20	2.73	3.40	4.07	4.74	5.41	6.08
	14%	1.92	2.41	3.01	3.62	4.22	4.83	5.44
	15%	1.69	2.13	2.68	3.23	3.78	4.33	4.88

Source: BBY estimates

Scenario 2

In the second sensitivity analysis, we have assumed a capital raising at A\$2.00/sh.

TABLE 2: SENSITIVITY ANALYSIS 2 - DCF VALUATION (A\$M) ASSUMING A CAPITAL RAISING CONDUCTED AT A\$2.00/SH

		Flat Long Term Oil Price (per barrel)						
		US\$50	US\$60	US\$70	US\$80	US\$90	US\$100	US\$110
WACC	10%	3.61	4.42	5.42	6.43	7.44	8.45	9.45
	11%	3.14	3.86	4.75	5.65	6.55	7.45	8.35
	12%	2.73	3.38	4.18	4.99	5.80	6.60	7.41
	13%	2.39	2.97	3.69	4.42	5.15	5.87	6.60
	14%	2.09	2.62	3.27	3.93	4.59	5.25	5.91
	15%	1.83	2.31	2.91	3.51	4.11	4.70	5.30

Source: BBY estimates

We also note this analysis only includes value for LNC's proposed 20,000 barrel per day facility and does not encompass other facilities which could be built at Chinchilla or elsewhere.



FINANCIAL SUMMARY

ANALYSIS OF INTEGRATED GAS PRODUCTION & GTL

Gas Production			
Plant capacity	20,000 bbl/day		
Availability Factor	90.4 %	Plant Availability Time	7,920 hours / year
Gas Production	1,397,023 Nm ³ / hour	Total Gas Production	11,064,424,587 Nm ³ / year
Gas Calorific Value	5.23 MJ / Nm ³	Total Energy Output	57,866,941 GJ / year
By-Product Production - Hydrocarbons			
Hydrocarbon Production	15.27 g / Nm ³	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 / Nm ³	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 * 50 US\$ / bbl	74.29 \$ / barrel	Total Diesel Revenue (Year 3+):	465,771,640 \$
Federal Tax Exemption	no	Federal Tax Rate	0.36 \$/litre
Economic Factors		WACC:	15.0 %
Debt	70.0 %		
Equity	30.0 %		
Exchange Rate \$/US\$	0.7		
Capital Expenditure Details			
Gas Process Plant	70,000,000 \$		
Clean Up Plant	180,000,000 \$	Total Capital Required	800,000,000 A\$
GTL Plant	550,000,000 \$		
Operating Costs			
Gas Process Plant	28,900,000 \$ / year		
Clean Up Plant	14,200,000 \$ / year		
GTL Plant	50,000,000 \$ / year	Total Opex	93,100,000 \$ / year
Summary per year (no inflation)			
Total Revenues (year 3+)	527,637,051 \$ / year	DCF @ 15 %	884,206,596 \$
Total Opex	93,100,000 \$ / year	Internal Rate of Return	37.41 %
Total Site Admin Cost	4,000,000 \$ / year	Discounted Payback	7 years = 2013
Total HQ Admin Cost	7,000,000 \$ / year	Plant Capacity to Break Even	1,616 bbl/day
Federal Tax Exemption	0 \$ / year		
EBITDA	423,537,051 \$ / year		

Source: BBY, Company Reports

FIGURE 1: LINC ENERGY SITE VISIT – VIEW FROM THE TOP OF LNC'S GTL FACILITY



Source: BBY

FIGURE 2: LINC ENERGY SITE VISIT – LNC'S GTL FACILITY



Source: BBY



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

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