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Linc Energy Ltd

Capital Raising Enhances LNC's Position

LNC

A\$1.55

BUY

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Linc Energy Limited (LNC) today announced that it has raised A\$57.4M through the issue of 41M shares at A\$1.40/sh. The company has also announced an underwritten Share Purchase Plan (SPP) at the same price to raise an additional A\$20M. This raising will allow LNC to: (i) complete the purchase of the previous announced Wyoming US asset (US\$5M); (ii) continue drilling the Galilee thermal coal tenement; (iii) accelerate the commercial Gas-to-Liquids (GTL) plant engineering work; and importantly, (iv) finalise the sale of its three coal deposits by providing the company sufficient working capital and time. The proceeds from a sale would help fund the company's first 20,000 barrel per day commercial GTL facility. We maintain our BUY recommendation on LNC and have slightly revised down our sum-of-the-parts valuation on the coal assets to A\$2.85/sh (prev A\$3.20/sh) to take into consideration the dilution from the equity raise. Our price target is A\$2.85/sh, in line with our valuation. The key catalyst for the stock remains the successful sale of one of its coal tenements.

Share Placement Highlights

- ▶ 41M shares issued at A\$1.40/sh to raise A\$57.4M. An underwritten SPP has also been announced which is capped at A\$20.0M (14.3M shares to be issued), bringing the total raise to A\$77.4M. Retail shareholders are able to subscribe for up to A\$15,000 worth of shares in the SPP but may be scaled back (LNC has over 10,000 retail shareholders). LNC's cash burn over the past few months has been A\$2.5-3M per month, so the funds raised should give the company in excess of one year's working capital requirements (inc US acquisition, drilling etc).

Coal Tenements

- ▶ We expect that either Pentland and/or Emerald (both have JORC statements) will be sold before Galilee. While we would expect a straight sale for Emerald, a deal for Pentland could encompass an up front payment followed by a royalty stream payable to LNC.
- ▶ We highlight the possibility a single coal company may bid for all three of LNC's coal tenements. As previously announced (24 June 2009), UBS Investment Bank has been appointed to act as manager and advisor on the strategic divestment process of LNC's coal assets. Possible bidders for the assets include Chinese coal companies, Anglo, BHP Billiton, Peabody or Indian groups.

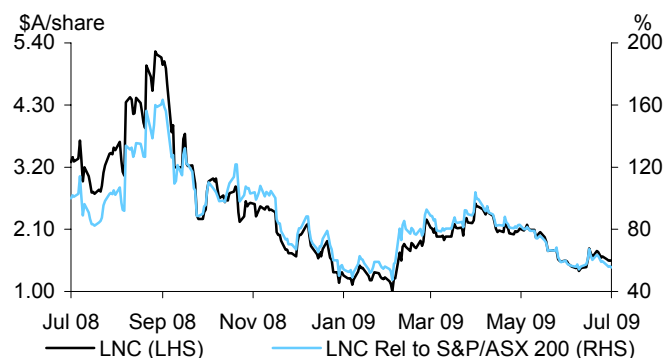
Company Data

Number of shares	418.3M
Market capitalisation	\$648.4M
12 month high/low	\$5.39 / \$0.98
Average monthly turnover	\$58.2M
All Ordinaries Index	4196
% All Ordinaries	0.03
GICS Industry Group	Energy

Earnings Summary

Year End June	FY08A	FY09E	FY10E	FY11E	FY12E
NPAT (A\$M)	(8.0)	(15.0)	(17.0)	(18.0)	5.0
EBITDA	(4.5)	(10.5)	(12.0)	(12.5)	40.8
EPS (A\$)	n/a	n/a	n/a	n/a	n/a
Dividend	n/a	n/a	n/a	n/a	n/a
Dividend (A\$)	0	0	0	0	0

LNC versus S&P/ASX 200 Index





Financial Summary

Gas Production

Plant capacity	10,000 bbl/day		
Availability Factor	90.4 %	Plant Availability Time	7,920 hours / year
Gas Production	698,511 Nm ³ / hour	Total Gas Production	5,532,212,293 Nm ³ / year
Gas Calorific Value	5.23 MJ / Nm ³	Total Energy Output	28,933,470 GJ / year

By-Product Production - Hydrocarbons

Hydrocarbon Production	15.27 g / Nm ³	Total Hydrocarbon Production	84,498 tn / year
Sale Value of Hydrocarbons	100 \$ / tn	Total Hydrocarbon Revenue	8,449,794 \$ / year

By-Product Production - Naphtha

Naphtalene Production	10.16 g / Nm ³	Total Naphtalene Production	56,207 tn / year
Sale Value of Naphtha	400 \$ / tn	Total Naphtalene Revenue	22,482,911 \$ / year

Diesel Production

GTL Plant Energy Efficiency	70 %	Diesel Calorific Value	6.137 GJ / barrel
Maximum Energy Output	20,253,429 GJ / year	Maximum Diesel Production	3,300,002 barrels / year
Availability Factor - year 1	85.0 %	Diesel Production - year 1	2,805,001 barrels / year
Availability Factor - year 2	90.0 %	Diesel Production - year 2	2,970,001 barrels / year
Availability Factor - years 3+	95.0 %	Diesel Production - years 3+	3,135,001 barrels / year
Diesel Selling Price	75 US\$ / bbl	Total Diesel Revenue (Year 3+):	293,906,384 \$
Federal Tax Exemption	no	Federal Tax Rate	0.36 \$/litre

WACC: 12.0 %

Capital Expenditure Details

Gas Process Plant	70,000,000 \$		
Clean Up Plant	180,000,000 \$	Total Capital Required	1,000,000,000 A\$
GTL Plant	750,000,000 \$		

Operating Costs

Gas Process Plant	15,895,000 \$ / year		
Clean Up Plant	7,810,000 \$ / year		
GTL Plant	27,500,000 \$ / year	Total Opex	51,205,000 \$ / year

Summary per year (no inflation)

Total Revenues (year 3+)	324,839,089 \$ / year
Total Opex	51,205,000 \$ / year
Total Site Admin Cost	4,000,000 \$ / year
Total HQ Admin Cost	7,000,000 \$ / year
Federal Tax Exemption	0 \$ / year

EBITDA 262,634,089 \$ / year

BBY SUM OF THE PARTS VALUATION FOR LNC'S NON CORE COAL ASSETS

Tenements	Value Per share
Emerald	1.40
Galilee	0.93
Pentland	0.34
Arckaringa	0.18
Total Vaue	2.85

Source: BBY, Company Reports



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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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