

Northern Energy Corporation (NEC)

Opinion Data

Recommendation	Speculative Buy
Risk Rating	High
Current share price	\$1.19
Price range - high/low	\$2.26 - \$0.86
Market capitalisation	\$82.5m

Company Background

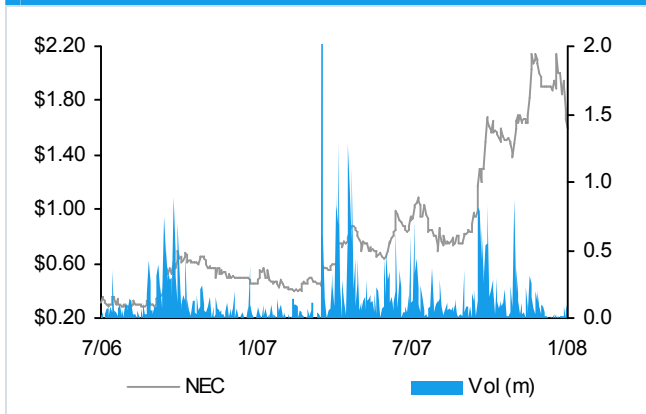
Northern Energy Corporation (NEC) is a Queensland based pure coal company. In 2005, NEC listed on the ASX as a single project explorer, and has since developed a portfolio of active projects, three of which are at the early project development stages.

The company's key projects are:

- Elimatta (NEC 100%) – 285mt thermal coal resource (130mt inferred, 155mt Indicated) in the Surat Basin, Queensland. Targeting a 4-5mtpa open cut operation.
- Yamala – JV with Sojitz Corporation (Sojitz earning 30%, with option to acquire a further 19%), developing a 190mt thermal/PCI coal resource at Emerald, to support a 3.0-3.5mtpa underground operation (additional 220-260mt exploration target exists).
- Maryborough (NEC 100%) – hard coking coal resource near Bundaberg. Targeting a small scale (250-500ktpa, open cut operation).
- Ashford JV (NEC 50%) - inferred resource of 18mt hard coking coal at Ashford.

NEC's development timeline is intended to coincide with the commissioning of upgraded rail and port infrastructure in Queensland, including the Southern missing rail link (2011) and the Wiggins island port development at Gladstone. There is potential for earlier development at Maryborough.

NEC Share Price / Volume



Highlights

During the quarter NEC released an upgraded resource statement for Elimatta, increasing the total resource by 30% to 285mt. More significantly, Indicated resources were lifted by 600% from 22mt to 155mt. With more than 50% of the Elimatta resource now in the Indicated category, this resource upgrade effectively marked NEC's transition from explorer to developer.

With 168mt of the resource at a strip ratio below 5:1, NEC can now be confident that Elimatta represents a large, low strip-ratio, high quality export thermal coal project. Importantly, NEC retains a 100% interest in the project. While the remaining 22-40mt exploration target at Elimatta may be incorporated into the next resource upgrade (expected shortly), we expect further resource updates to be focussed on further upgrading the resource status, with the possibility of an initial reserve during the quarter, as the company progresses its conceptual mine planning.

The Yamala JV - where Sojitz is earning a 30% interest through the expenditure of \$5.3m, with ~\$1m already spent - is now in its second stage. The intention is to upgrade ~100mt of the existing 190mt inferred resource and conduct a pre-feasibility study. NEC is targeting completion of the pre-feasibility study in 2008.

Wet weather has prevented on-site work at Maryborough since November, but NEC continues to study its transport logistics options for the project, with potential Indian customers particularly interested in the use of the smaller Bundaberg port.

Outlook / Investment View

We have delayed our assumed reversion to long term coal pricing from 2011 to 2015, resulting in increased price assumptions of between 13-35% over FY'12-FY'15, with our long term thermal coal price increased by 4% to US\$50/t. Our risked NPV for NEC has increased to \$2.40/share.

With regard to infrastructure, the Wiggins Island coal terminal received environmental approval in January, and the idea of a 30mt coal terminal at Port Alma, north of Gladstone has also been raised. It appears that infrastructure risk now relates to achieving construction timelines and obtaining sufficient allocations on the new infrastructure, rather than whether the infrastructure will be built.

With cash holdings of ~\$6.1m, NEC is well placed to build further shareholder value as it develops its project portfolio. Maintain Speculative Buy.

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DISCLOSURE

Recommendation Criteria

Investment View

Austock Securities Investment View is based on an absolute 1-year total return equal to capital appreciation plus yield.

Strong Buy	Buy	Hold	Lighten	Sell
25% +	25% - 10%	10% - (5%)	(5%) - (15%)	(15%) +

A Speculative recommendation is when a company has limited experience from which to derive a fundamental investment view.

Risk Rating

Austock Securities Limited has a four tier Risk Rating System consisting of: Very High, High, Medium and Low. The Risk Rating is a subjective rating based on: Management Track Record, Forecasting Risk, Industry Risk and Financial Risk including cash flow analysis.

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